ISSN 0379-2056

EUROPEAN ECONOMY

EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A
Economic trends
No 12 – December 2001

In this number:
Mergers and acquisitions

http://europa.eu.int/comm/economy_finance

SUMMARY AND MAIN POINTS

The European Commission's Directorate-General for Economic and Financial Affairs monitors activity in the field of mergers and acquisitions, with particular reference to operations involving EU enterprises.

Part A of this issue gives an overview of the evolution of mergers from 1991 to 2001, focusing on the period 2000-2001. Part B surveys the largest deals carried out in 2000 and 2001 and Part C reports on Commission control of mergers. A box describes the sources of information and presents the conventions used.

The statistical data are drawn from the SDC M&A data base. This data base has been extensively revised and expanded since the 2000 edition of this supplement. The revisions have some effect on the observed patterns of evolution and the distribution of operations by geographic category and sector but do not affect the main conclusions of the previous edition.

1. *For the year 2000, the data base records 16750 mergers and acquisitions involving an enterprise of the European Union. The number fell by one quarter in 2001 to 12 557, the first decline since 1996.* The U.K. accounts for the largest share of M&A activity in the EU, followed by Germany, France and the Netherlands.

2. *There are some indications that monetary union may have had an impact on the relative growth of M&A activity in the original eleven members of the euro zone, compared to the other four Member States.* It seems that increased integration of financial markets may have made it easier for euro-zone companies to make acquisitions. However, it does not appear that EMU has made euro-zone companies more attractive as targets of cross-border acquisitions.

3. *In 2000-2001, Domestic transactions accounted for 54% of all operations involving EU companies, Community operations for 15% and International transactions for 25%. It is not possible to classify the remaining 6%.* By comparison with the period 1998-1999, there has been a fall in the share of International operations, particularly those targeting EU firms, while the share of Community operations increased slightly.

4. *There were 2548 Community operations in 2000 and 1869 in 2001. Having reached a peak of nearly € 550 billion in 1999, the value of Community operations then declined very steeply to € 330 billion in 2000 and € 145 billion in 2001.* A single transaction (Vodafone AirTouch/Mannesmann) accounted for

37% of the 1999 value. Proximity and traditional economic links, together with the size of the national economies, are particularly important determinants of the geographical distribution of cross-border mergers and acquisitions.

5. *The data base records 4247 International operations involving EU firms in 2000, falling to 3028 in the following year. The number of outward operations declined somewhat more steeply than the number of operations targeting EU firms. The value of international operations reached nearly € 600 billion in 2000 but fell to less than half that level in the following year.*

6. *As in previous periods, the U.S.A. heads the list of both bidders and targets for International M&A involving Community firms, followed by Switzerland.* Norway also figures prominently in the ranking of both bidders and targets. The Central and Eastern European Countries, especially Poland, account for a large and increasing proportion of extra-EU acquisitions made by EU firms. Amongst EU countries, the U.K. accounts for by far the largest number of international operations, as both target and bidder.

7. *Since 1991, the number of operations (cross-border and domestic) targeting industrial firms in the EU has shown a slight downward trend, while the general trend of transactions in the services sectors has been strongly upward, particularly in 1999-2000.* Amongst the individual two-digit SIC sectors, the level of activity over the period 2000-2001 was highest in the business services sector, followed by wholesale distribution (durable and non-durable goods combined), as in the previous period. The number of M&A in business services increased by two-thirds in 2000-2001, compared to the previous two years.

8. *The sectoral distribution of Community operations is very similar to that of domestic operations, indicating that national borders within the EU do not significantly distort the acquisition strategies of European companies.*

9. *There are some indications that Economic and Monetary Union may have accelerated the pace of restructuring in the financial services and distribution sectors but the impact, if any, was mainly restricted to domestic operations in the euro-zone countries.* In these sectors, EMU has not so far given any impetus to cross-border integration through M&A.

10. *1908 operations have been notified to the Commission under the Merger regulation since its entry into force in 1990.* In 95 cases the Commission deemed that the operation raised serious doubts as to its compatibility with the common market and undertook an in-depth (Phase 2) investigation. On completion of these investigations, twenty mergers were authorised without conditions, eighteen were forbidden and fifty-seven were authorised subject to the fulfilment of undertakings aimed at resolving competition problems identified by the Commission. In 2000 and 2001, seven mergers were prohibited.

Box 1: Notes on the data base 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, announcements in official publications etc. Data base providers have established a network of experts in several countries and devote consider-able effort to collecting and cross-referencing information.

Although data providers endeavour to collect and present information which is as full as possible, the very nature of the information makes the coverage somewhat arbitrary. Whereas major operations affecting publicly listed companies are often officially published and widely reported in the press, the numerous 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.

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 unless otherwise in-di-cated.

We use the SDC data base of Thomson Financial Securities. This base is very comprehensive. It covers all acquisitions of shareholdings of 5% or more and with a value over US$1 million or an unknown value. This base is constantly being enlarged and updated. For the period 1991-1999, for example, it now contains 17% more transaction records than when the last edition of this supplement was prepared. The revisions of the data base have had some effects on the observed patterns of evolution and the distribution of operations by geographic category and sector.

We take account of both completed and pending deals.

Most pending deals are eventually completed but it is sometimes difficult to obtain confirmation of completion. The exclusion of pending deals would therefore lead to some underestimation. In order to reduce the margin of error, we include pending deals in the data.

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

We equate change of control of an enterprise with mergers and acquisitions (M&A). Acquisitions of majority holdings, which are clearly identified in SDC M&A, usually confer control. 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.

The value data are incomplete but give a good indication of trends.

It is important to note that the data base does not contain value data for a significant number of deals. However, most of these are small deals, the values of large operations being usually easy to ascertain. The value data are therefore underestimated, though not by a large amount. To calculate average values, we have divided the total value by the total number of deals recorded in the base. In effect, this means that a zero value is assigned to deals whose real value is not known. The resulting underestimation is less significant than the upward bias which would result from taking as the denominator only deals of a known value. Although absolute levels are under-estimated, the data give a good indication of trends.

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 bid-der. That is therefore the sector in which the effects of an M&A will be the greatest. The sectoral classification used by SDC M&A is an old version of the U.S. Standard Industrial Classification (SIC - see Box 3). The numbering and, in some respects, the grouping of sectors differs from both the Community's NACE classification and the U.N.'s ISIC system.

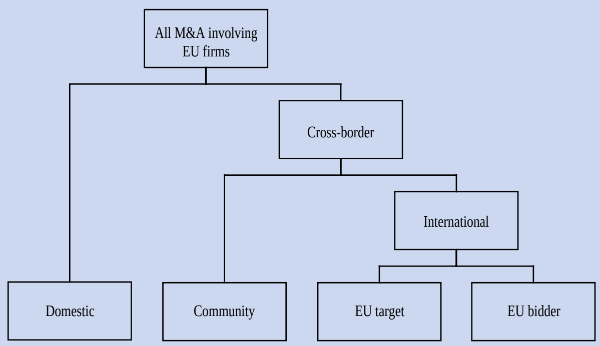
Box 2: Geographical spread: definitions

An analysis of the geographical scope of the deals can give an insight into the relative roles of strategies for cross-border expansion and for growth in the domestic market.

Graph 3 shows how mergers and acquisitions are classified for the purposes of this analysis. The operations can be divided into two broad categories: Cross-border and National. Cross-border operations are deals between firms based in at least two different countries. Within this category, we distinguish between two sub-categories: Community and International. Community operations 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 because of their influence on the integration of European markets. International operations are those which involve at least one non-Community enterprise. This sub-category can be further divided according to whether a Community enterprise is the target or the bidder.

Domestic 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 as the economic integration of the Community progresses. One impor-tant spill-over effect could be to bar foreign competition from access to domestic markets or, at least, to defer access. 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 and generally better prepare for competition on a European basis, including on the domestic market.

GRAPH 1: **Geographical classification**



For a large number of deals, particularly in the earlier years, the identity or nationality of the bidder is unknown (see Section 2.1). These deals are included in the total but it is not possible to classify them according to the above geographic typology.

PART A: TRENDS SINCE 1991

1. Total number of operations

For 2001, the SDC M&A data base records a total number of 12557 operations involving Community enterprises. This represents a decrease of 25 % by comparison with 2000. From 1997 onwards, the number of operations grew continuously to reach 16750 operations in 2000. In 2001, however, the number of M&A fell to a level slightly above that of 1998. Table 1 shows the evolution of M&A operations since 1991.

The evolution of M&A operations is linked to evolution of the economy. The low economic growth rates experienced

TABLE 1: **Evolution of M&A involving EU firms**

Year	Number	% change
1991	10657	
1992	10074	-5,50%
1993	8759	-13,10%
1994	9050	3,30%
1995	9854	8,90%
1996	8975	-8,90%
1997	9784	9,00%
1998	11300	15,50%
1999	14335	26,90%
2000	16750	16,80%
2001	12557	-25,00%

Source: SDC: M&A.

by the EU in 1992-1993, 1996 and 2001 are reflected in the declines in M&A activity in those years.

2. Distribution of M&A activity

The distribution of total M&A activity in the period 1991-2001 between the Member States is shown in Table 2. The U.K. accounts for by far the largest proportion, followed at some distance by Germany and France and then by the Netherlands and Italy. The table shows that the share of GDP and the share of M&A activity are only loosely correlated. Other factors, such as the extent to which firms rely on the stock exchange as a source of finance, are clearly also important.

TABLE 2: **Distribution of M&A activity and GDP between Member States, 1991-2001**

	Share of M&A (%)	Share of GDP (%)
B	2,83	3,2
DK	2,55	2,1
D	16,28	28,2
EL	1,12	1,4
E	5	7
F	13,5	18,1
IRL	1,68	0,9
I	6,23	12,6
L	0,48	0,2
NL	6,45	4,9
A	2,09	2,7
P	1,21	1,3
FIN	3,85	1,6
S	5,34	2,8
UK	31,39	13,2

Source: SDC M&A, Ameco.

3. The impact of EMU

In Supplement A, no. 5/6 of 2000, we considered whether Economic and Monetary Union had had any impact on M&A activity in the EU and concluded that the data up to the year 1999 showed no clear evidence of an effect. A new analysis on the basis of the latest data reveals some weak indications that EMU may have had an impact on M&A activity.

Table 3 compares the growth rates of M&A in the original members of euro zone with those of the four other Member States, in terms of both the numbers of deals and their values. For the purposes of this analysis, Greece is excluded from the euro zone because it did not join until 2001. Because of the low level of M&A activity in that country, its exclusion does not affect the results.

As far as the total number of deals is concerned, the table shows that growth was generally slower in EUR11 than in the other Member States until 1998. The euro-zone countries experienced faster growth than the others in 1999 and 2000 but also a steeper decline in 2001. The cumulative change over the three years 1999-2001 was +19.3% in EUR11 and +3.1% in the other group.

In value terms, however, we find that growth rates were higher in EUR11 than in the other group during the three years 1996-1998 but slightly lower in 1999. In 2000 and 2001, the value of deals fell in both groups of countries. The cumulative change over the last three years was +0.6% in EUR11 and –8.4% in the other Member States.

The evidence of the value data is inconclusive because EUR11 already showed a higher growth rate in 1996-1998 and also because a single large deal can make a significant difference to the aggregate value. On the other hand, the evidence from the numbers of transactions seems to indicate an EMU effect.

TABLE 3: **Growth rates of M&A activity in EUR11 and the other Member States**

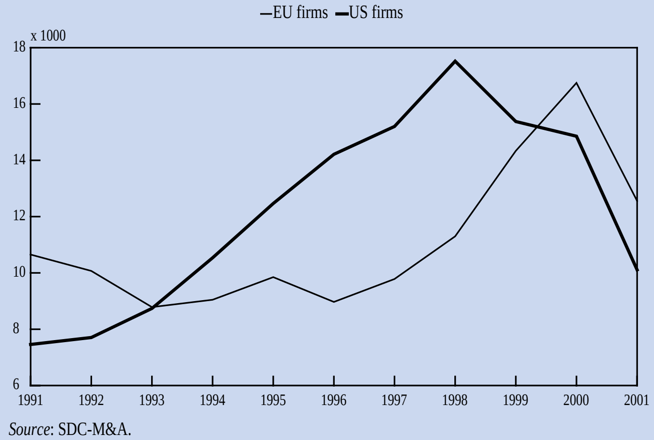
	Number of operations		Value	
	All operations		All operations	
	EUR11	Others	EUR11	Others
1992	4.69%	-17.72%	5.9%	-3.5%
1993	-19.92%	-1.76%	17.1%	0.5%
1994	-0.14%	6.86%	-2.3%	10.6%
1995	12.10%	5.13%	-8.5%	103.5%
1996	-11.76%	-5.38%	58.9%	-4.1%
1997	3.01%	16.00%	62.5%	47.8%
1998	12.96%	18.11%	85.0%	63.7%
1999	36.34%	17.50%	115.7%	120.2%
2000	20.51%	12.65%	-15.7%	-8.8%
2001	-27.40%	-22.14%	-44.7%	-54.4%

Source: SDC-M&A.

4. A brief comparison with the USA

Between 1993 and 1998, M&A operations carried out by EU and US firms both displayed an upward trend (see Graph 1). US firms nevertheless remained significantly more active than European ones and the gap between the EU and the USA increased constantly until 1998. After that year, M&A activity in the USA began to fall, with a sharp decrease between 2000 and 2001. Operations by EU firms, on the other hand, reached a peak in 2000 before experiencing a similar fall in 2001.

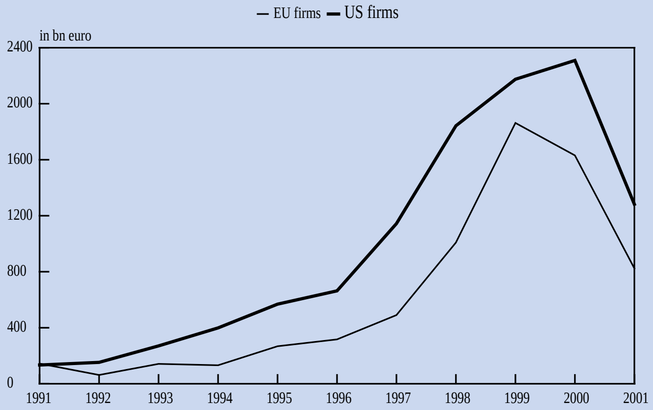
GRAPH 2: **Number of M&A Operations involving EU and US firms**



Source: SDC-M&A.

The decline experienced by the USA since 1998 in terms of the number of M&A operations is not observed in terms of value. The total value continued to increase up to 2000 before a downturn in 2001. For the EU, the total value reached its peak in 1999, even though the number of M&A operations peaked only in 2000 (see graph 2). This illustrates the effect that a few very large operations can have on aggregate values.

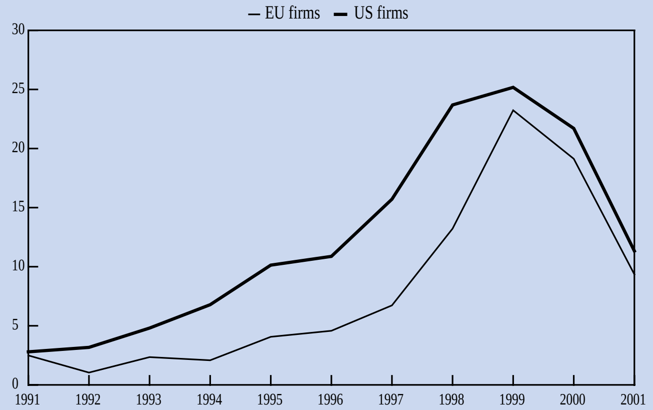
GRAPH 3: **Total value of M&A operations involving EU and US firms**



Source: SDC-M&A.

The generally higher level of M&A activity in the USA, particularly in terms of value, is partly attributable to the difference in the size of the economies. However, the relative size of GDP cannot be considered as the sole determinant of the gap in the level of activity in the two areas. Until 1999, the spread between the level of M&A activity in the USA and the EU was significantly and increasingly bigger than the difference between their GDPs (see graph 3).

GRAPH 4: **Total value of M&A as percentage of GDP**



Source: SDC-M&A.

Despite a higher number of operations since 2000 for the EU and a large decrease in the number for the USA, the ratio between the total value of M&A and the GDP remains greater for the USA than for the EU, because of the higher value of M&A operations involving US firms.

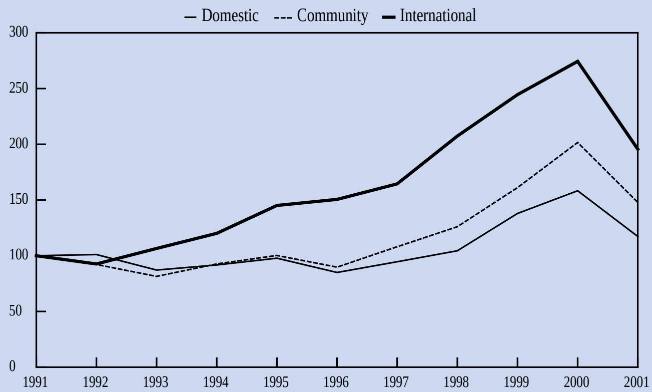
Parts of explanation of this point can be found in the market capitalisation. Total market capitalisation has always been higher in the USA than in the EU. But other factors also contribute to the higher level of M&A activity in the USA, such as the regulatory environment (less restrictive in the USA despite important changes in the EU), corporate governance (shareholding is more atomised in the USA and markets have a greater role in deciding the outcome of contests for control) and cultural factors (confidence in the capital markets, risk aversion, etc.)

5. Geographical spread

5.1 Breakdown of domestic, Community and international operations

Graph 5 tracks the evolution of the three types of operation: Domestic, Community and International. The data refer to the numbers of transactions and are presented as indices, the base year being 1991.

GRAPH 5: **Growth in number of Domestic, Community and International Operations**
(1991=100)



Source: SDC-M&A.

Since 1992, there has been a strong upward trend in International operations. Domestic and Community operations, on the other hand, started to increase steadily only after 1996. All three types of operation reached their peak, in terms of numbers, in the year 2000. The world-wide economic slowdown in 2001 was reflected in a sharp downturn in all types of operation.

Table 4 shows the evolution of each type of operation as a percentage of the total number of M&A transactions

TABLE 4: **Breakdown of total M&A into Domestic, Community and International operations**

	Domestic	Community	International	Bidder unknown	Total
1991	54.3%	11.9%	14.5%	19.3%	100.0%
1992	58.1%	11.6%	14.2%	16.1%	100.0%
1993	57.4%	11.7%	18.8%	12.1%	100.0%
1994	58.7%	12.9%	20.5%	7.9%	100.0%
1995	57.4%	12.9%	22.8%	6.9%	100.0%
1996	54.8%	12.6%	26.0%	6.6%	100.0%
1997	56.0%	14.0%	26.0%	4.0%	100.0%
1998	53.5%	14.1%	28.4%	4.0%	100.0%
1999	55.7%	14.2%	26.4%	3.7%	100.0%
2000	54.7%	15.2%	25.4%	4.7%	100.0%
2001	54.1%	14.9%	24.1%	6.9%	100.0%

Source: SDC-M&A.

involving an EU firm. There is a large number of deals in the data base for which the identity of the acquirer is unknown. These are shown separately, since it is not possible to classify them in our geographical typology. The picture which emerges from Table 4 may be somewhat distorted by the fact that the number of transactions with an unknown bidder is greater for earlier transactions.

Domestic operations account for more than half of the total. Although the share of these operations rose substantially in the first half of the 1990s, it had fallen back to its initial level by the year 2000. The proportion of Community operations has increased quite steadily to reach about 15% in the last two years. The share of International operations increased rapidly up to 1998 but has declined somewhat since then to about a quarter of the total.

Table 5 shows, for each Member State in the period 2000-2001, the distribution of the number of operations between Domestic, Community and International transactions, together with operations by unknown bidders targeting firms in that Member State.

TABLE 5: **Geographical breakdown by Member State, 2000-2001**

	Domestic	Community	International	Bidder unknown	Total
B	30.8%	47.3%	19.8%	2.1%	100.0%
DK	37.5%	35.7%	24.7%	2.1%	100.0%
D	48.5%	26.1%	21.8%	3.6%	100.0%
GR	67.9%	11.5%	18.0%	2.6%	100.0%
E	53.1%	25.1%	18.4%	3.4%	100.0%
F	48.4%	29.5%	20.3%	1.8%	100.0%
IRL	21.1%	41.7%	29.2%	8.0%	100.0%
I	50.4%	28.2%	17.3%	4.0%	100.0%
L	11.7%	62.2%	25.0%	1.1%	100.0%
NL	29.6%	41.2%	26.4%	2.8%	100.0%
A	35.5%	32.7%	24.6%	7.1%	100.0%
P	52.9%	25.7%	13.2%	8.2%	100.0%
FIN	51.9%	28.3%	18.6%	1.2%	100.0%
S	42.2%	31.5%	24.6%	1.7%	100.0%
UK	52.7%	15.6%	22.2%	9.5%	100.0%
EU	54.4%	15.1%	24.8%	5.7%	100.0%

Source: SDC-M&A.

The share of Domestic operations is comparatively high (over 50%) in Greece, Spain, Italy, Portugal, Finland and the U.K. In Belgium, Ireland, Luxembourg and the Netherlands, on the other hand, Community operations account for the largest part of the total. International operations account for between 20% and 30% in most Member States. The share of international operations is highest in Ireland (29%) and the Netherlands (26%) and lowest in Portugal (13%).

5.2 An EMU effect?

Table 6 compares the growth rates of the different types of operation in the original euro zone and in the other Member States, distinguishing within Community and International operations between deals with a target in the area concerned and deals with a bidder in the area.

TABLE 6: **Growth rates of numbers of operations in EUR11 and other Member States, by type of operation**

	Domestic operations		Cross-border with target in:		Cross-border with bidder in:	
	EU11	**Others**	**EU11**	**Others**	**EU11**	**Others**
1992	3.4%	-3.5%	5.9%	-25.4%	-8.7%	-14.6%
1993	-22.5%	4.6%	-8.9%	22.3%	-6.2%	5.4%
1994	-0.8%	14.6%	12.1%	8.4%	13.2%	20.2%
1995	8.8%	3.7%	9.0%	7.0%	20.3%	18.2%
1996	-17.3%	-7.2%	-1.7%	-4.6%	-7.4%	-1.1%
1997	3.9%	20.7%	16.0%	25.5%	7.8%	14.9%
1998	4.3%	17.0%	9.9%	26.2%	34.7%	17.6%
1999	50.4%	14.3%	12.3%	6.3%	37.5%	30.6%
2000	19.9%	8.3%	14.4%	18.0%	27.3%	11.8%
2001	-29.3%	-21.1%	-24.0%	-30.5%	-31.4%	-23.3%

Source: SDC-M&A.

The number of domestic operations grew much more rapidly in the original euro zone than in the other Member States in the first two years of EMU, but also fell much more steeply in 2001. The same is true of cross-border acquisitions made by EUR11 firms. Cross-border operations with a target in EUR11 showed a higher growth rate in 1999 but grew less than cross-border acquisitions of firms in the other Member States in the following year and also declined less in 2001.

From this evidence, it does not appear that EMU has made euro-zone companies more attractive for cross-border acquisitions. On the other hand, the rapid rise in domestic and cross-border acquisitions made by EUR11 firms in 1999-2000 may be evidence that the greater integration of financial markets in EMU has made it easier for firms in the euro zone to raise the capital needed to launch takeover bids. It is noteworthy, however, that in 1998, before EMU came into effect, cross-border acquisitions made by EUR11 firms already grew significantly more than the corresponding operations by firms from other Member States.

5.3 Community operations

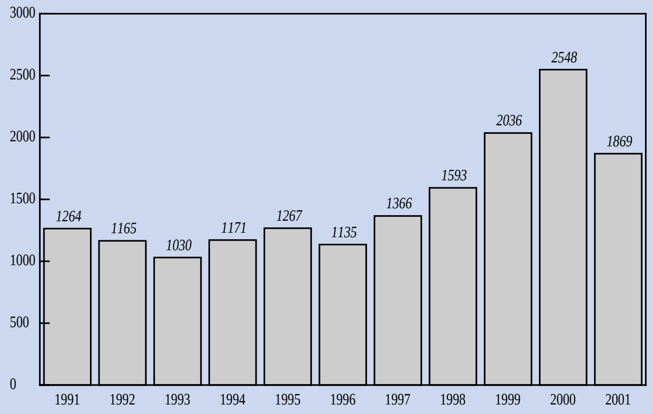
5.3.1 Number of Community operations

After fluctuating in the first half of the 1990s, the number of Community operations increased steadily after 1996 to reach a peak of over 2500 in the year 2000. Last year's sharp decline in the overall level of M&A activity also affected Community operations, which fell by 27% (see Graph 6).

5.3.2 Value of Community operations

The aggregate value of Community operations has followed a pattern of change that differs markedly from that of the number of transactions (see Graph 7). The differences are particularly striking over the last five years. The value of the operations grew much more rapidly than their number in the period

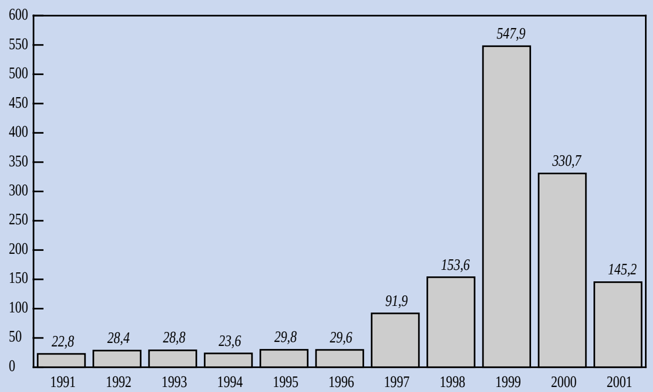
GRAPH 6: **Number of Community operations**



Source: SDC-M&A.

1997-1999. In 2000, while the number of deals continued to increase strongly (+25%), their total value fell by 40%. Last year, a 27% fall in the number of Community operations was accompanied by a much greater decline of 56% in value.

GRAPH 7: **Value of Community Operations** (in Billion euro)



Source: SDC-M&A.

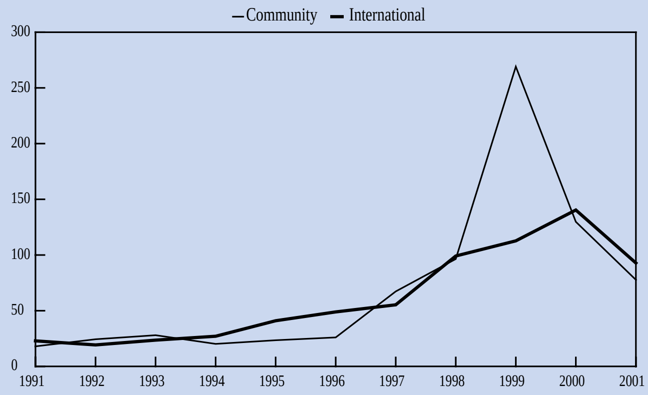
From 1991 to 1996, the average value of Community operations varied between €18 million and €28 million per deal (see Graph 8). There was a very steep increase in the following three years to reach a peak of €269 million in 1999. This large increase is attributable mainly to a few very large transactions, such as the Astra/Zeneca merger of 1998, valued at €29.4 billion, or the Vodafone/Mannesmann deal of 1999, valued at €204.8 billion.

Having risen much more steeply than the average value of International deals in the period 1996-1999, the average value of Community deals also fell more sharply in the following two years to less than a third of its 1999 level.

5.3.3 Geographical breakdown of Community operations

Tables 7 and 8 give breakdowns by country of Community operations in the period 2000-2001. The home countries of the target firms are in columns and the bidder company countries are in rows. Table 7 shows for each bidder country the

GRAPH 8: **Average value of Community and International operations** (in Mio euro)



Source: SDC-M&A.

distribution of acquisitions amongst target countries, while Table 8 presents for each target country a breakdown according to the origin of the bids.

As target countries, Germany, France and the U.K. are almost equally placed with about 15% each. Spain and the Netherlands are in the fourth and fifth places with nearly 9% each. In spite of its size, Italy comes sixth with 7%, only slightly ahead of Sweden. U.K. companies are the leading acquirers with nearly 20% of the total, followed by German (16%) and French (14%) companies. The Netherlands come close behind with 10%, while both Swedish (7.1%) and Belgian (6.2%) companies have made more cross-border acquisitions in the EU than Italian firms (6.0%).

To a large extent, these results reflect the differences in the general level of M&A activity in the Member States, influenced by factors such as the size of the economy, the number of firms listed on the stock market and structure of share ownership. The last two factors explain the apparently anomalous ranking of Italy, since, in spite of its size, it has fewer listed companies than the Netherlands or Sweden and both small and large Italian firms are often controlled by individuals or families. It is noteworthy that the United Kingdom's share of Community operations is not as great as its much higher level of total M&A activity might lead one to expect. In comparison with most other Member States, U.K. companies seem much more inclined to seek alliances at home or with U.S. firms, which account for 42% of U.K. companies' international acquisitions.

A more detailed examination of the matrices shows that the distribution of each country's Community operations is largely determined by the relative sizes of the other countries, their proximity and traditional economic and cultural links. The influence of these factors is clear when we consider the relative importance of country pairs such as Belgium/France, Belgium/Netherlands, Ireland/U.K. or the relationships between the Nordic countries.

5.4 International operations

5.4.1 Number of International operations

The number of International transactions in which an EU firm was either bidder or target climbed quite steadily from 1992

TABLE 7: **Community operations - breakdown of bidder countries by target country 2000-2001**

	Target country															
Bidder country:	**B**	**DK**	**D**	**GR**	**E**	**F**	**IRL**	**I**	**L**	**NL**	**A**	**P**	**FIN**	**S**	**UK**	**EU**
B	-	1.4%	10.5%	0.0%	3.6%	39.9%	1.4%	3.6%	2.5%	19.9%	1.4%	1.4%	0.7%	1.8%	11.6%	100%
DK	3.6%	-	10.7%	0.5%	3.0%	11.7%	0.5%	3.0%	0.0%	4.1%	1.5%	0.5%	12.2%	31.0%	17.8%	100%
D	6.1%	3.0%	-	0.8%	6.9%	16.3%	1.0%	8.4%	2.1%	12.7%	15.2%	1.4%	2.3%	5.2%	18.7%	100%
GR	4.4%	4.4%	17.8%	-	4.4%	6.7%	4.4%	11.1%	2.2%	13.3%	2.2%	0.0%	2.2%	2.2%	24.4%	100%
E	2.9%	0.7%	11.0%	0.7%	-	23.5%	1.5%	11.0%	0.7%	6.6%	1.5%	27.9%	4.4%	1.5%	5.9%	100%
F	11.4%	2.6%	17.3%	1.3%	12.5%	-	1.0%	14.0%	0.8%	9.2%	1.7%	2.8%	1.8%	3.6%	19.8%	100%
IRL	0.7%	1.5%	1.5%	0.0%	1.5%	4.4%	-	1.5%	0.0%	3.7%	2.2%	0.7%	4.4%	2.2%	75.6%	100%
I	2.3%	0.4%	19.2%	3.4%	16.9%	24.1%	1.1%	-	2.6%	5.3%	1.9%	2.3%	1.5%	3.4%	15.8%	100%
L	1.6%	1.6%	14.3%	3.2%	17.5%	20.6%	0.0%	12.7%	-	11.1%	3.2%	0.0%	0.0%	7.9%	6.3%	100%
NL	14.9%	2.9%	19.1%	1.4%	11.0%	15.1%	1.8%	6.3%	0.9%	-	0.9%	1.4%	1.8%	5.0%	17.6%	100%
A	2.5%	1.7%	57.1%	0.0%	1.7%	2.5%	0.0%	11.8%	0.0%	5.0%	-	0.0%	2.5%	6.7%	8.4%	100%
P	2.3%	0.0%	2.3%	2.3%	68.2%	6.8%	0.0%	4.5%	0.0%	4.5%	0.0%	-	0.0%	0.0%	9.1%	100%
FIN	2.7%	8.2%	21.9%	0.5%	2.2%	5.5%	1.1%	2.7%	0.0%	6.0%	0.5%	0.0%	-	41.5%	7.1%	100%
S	2.2%	18.8%	11.2%	0.3%	2.9%	8.0%	1.0%	4.2%	1.6%	8.3%	0.6%	1.3%	23.6%	-	16.0%	100%
UK	4.1%	3.0%	21.1%	0.7%	10.6%	20.5%	10.6%	7.6%	0.5%	9.7%	1.6%	1.5%	2.2%	6.3%	-	100%
EU	5.7%	3.7%	14.7%	1.0%	8.8%	14.8%	2.9%	7.2%	1.1%	8.6%	3.6%	2.3%	4.0%	6.9%	14.6%	100%

Source: SDC - M&A.

TABLE 8: **Community operations - breakdown of target countries by bidder country 2000-2001**

	Target country															
Bidder country:	**B**	**DK**	**D**	**GR**	**E**	**F**	**IRL**	**I**	**L**	**NL**	**A**	**P**	**FIN**	**S**	**UK**	**EU**
B	-	2.4%	4.5%	0.0%	2.6%	16.8%	3.1%	3.1%	14.3%	14.4%	2.5%	4.0%	1.1%	1.6%	5.0%	6.2%
DK	2.8%	-	3.2%	2.4%	1.5%	3.5%	0.8%	1.9%	0.0%	2.1%	1.9%	1.0%	13.7%	19.9%	5.4%	4.5%
D	17.5%	13.4%	-	14.3%	12.9%	18.0%	5.4%	19.1%	30.6%	24.1%	68.3%	10.0%	9.7%	12.4%	21.1%	16.4%
GR	0.8%	1.2%	1.2%	-	0.5%	0.5%	1.5%	1.6%	2.0%	1.6%	0.6%	0.0%	0.6%	0.3%	1.7%	1.0%
E	1.6%	0.6%	2.3%	2.4%	-	4.9%	1.5%	4.7%	2.0%	2.4%	1.2%	38.0%	3.4%	0.7%	1.2%	3.1%
F	27.5%	9.8%	16.1%	19.0%	19.6%	-	4.6%	26.6%	10.2%	14.7%	6.2%	17.0%	6.3%	7.2%	18.6%	13.7%
IRL	0.4%	1.2%	0.3%	0.0%	0.5%	0.9%	-	0.6%	0.0%	1.3%	1.9%	1.0%	3.4%	1.0%	15.8%	3.1%
I	2.4%	0.6%	7.8%	21.4%	11.6%	9.8%	2.3%	-	14.3%	3.7%	3.1%	6.0%	2.3%	2.9%	6.5%	6.0%
L	0.4%	0.6%	1.4%	4.8%	2.8%	2.0%	0.0%	2.5%	-	1.8%	1.2%	0.0%	0.0%	1.6%	0.6%	1.4%
NL	26.3%	7.9%	13.1%	14.3%	12.6%	10.2%	6.2%	8.8%	8.2%	-	2.5%	6.0%	4.6%	7.2%	12.1%	10.1%
A	1.2%	1.2%	10.4%	0.0%	0.5%	0.5%	0.0%	4.4%	0.0%	1.6%	-	0.0%	1.7%	2.6%	1.6%	2.7%
P	0.4%	0.0%	0.2%	2.4%	7.7%	0.5%	0.0%	0.6%	0.0%	0.5%	0.0%	-	0.0%	0.0%	0.6%	1.0%
FIN	2.0%	9.1%	6.1%	2.4%	1.0%	1.5%	1.5%	1.6%	0.0%	2.9%	0.6%	0.0%	-	24.8%	2.0%	4.1%
S	2.8%	36.0%	5.4%	2.4%	2.3%	3.8%	2.3%	4.1%	10.2%	6.8%	1.2%	4.0%	42.3%	-	7.8%	7.1%
UK	13.9%	15.9%	28.0%	14.3%	23.7%	27.1%	70.8%	20.6%	8.2%	22.0%	8.7%	13.0%	10.9%	17.6%	-	19.6%
EU	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: SDC - M&A.

to 2000 to reach a peak of more than 4000 deals (see Graph 9). The 29% decline in 2001 was slightly greater than the general decrease in the level of M&A activity in that year.

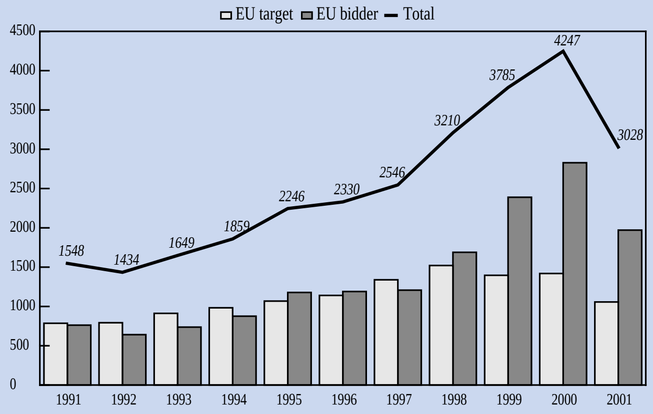
Until 1994, EU companies were more often targets than bidders in International operations. However, the number of acquisitions made outside the EU by EU companies has increased much more rapidly than operations in the other direction. In 2000, the number of outward operations was almost four times as great as in 1991, while the number of inward operations had nearly doubled. The downturn in 2001 affected outward operations somewhat more (-30%) than inward operations (-26%).

5.4.2 Value of International operations

As with Community operations, there was a strong upward trend in the value of International operations until last year (Graph 10). However, the pattern of growth has been somewhat different. While the value of Community operations saw a sustained increase only after 1996 and fell sharply in 2000, there was continuous growth in the value of International deals from 1993 to 2000, with a particularly steep rise in 1998. In 2001, however, the value of International operations fell by more than half.

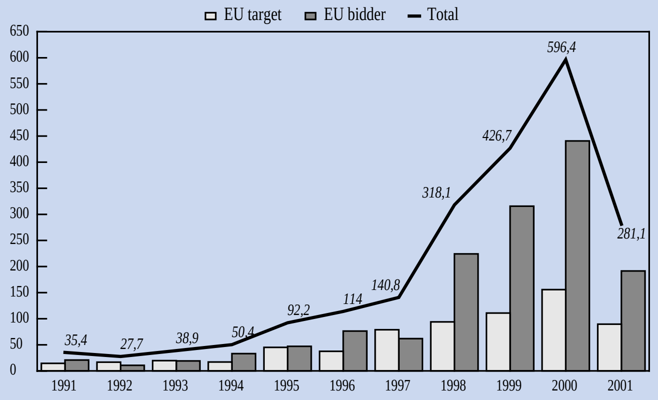
The values of inward and outward operations fluctuated relatively to each other between 1991 and 1997. In every year

GRAPH 9: **Number of International operations**



Source: SDC-M&A.

GRAPH 10: **Value of International Operations**
(in billion euro)



Source: SDC-M&A.

from 1998 onwards, however, the value of outward operations has substantially exceeded that of inward operations. In 2001, although the value of outward operations fell by -57%, compared to -42% for inward operations, the former still represented more than twice the value of the latter.

5.4.3 Geographical breakdown of International operations

There were nearly 2500 acquisitions of EU firms by non-EU companies in the period 2000-2001. Table 9 gives a breakdown by Member State of the acquisitions made in that period by the main extra-EU bidder countries. The USA is the main source of bids, with nearly 60% of the total. US companies account for particularly large shares of international acquisitions in Ireland and the U.K., probably because a common language and similar legal systems are important factors influencing cross-border M&A. Switzerland ranks second as a bidder country with nearly 12%, followed at some distance by Norway and Canada.

TABLE 9: **Breakdown by bidder countries of International operations with an EU target, 2000-2001**

	Target country														
Bidder country:	**B**	**DK**	**D**	**GR**	**E**	**F**	**IRL**	**I**	**L**	**NL**	**A**	**P**	**FIN**	**S**	**UK**	**EU**
USA	60.8%	37.0%	55.2%	16.7%	55.9%	60.5%	69.2%	63.4%	26.7%	61.4%	33.3%	23.3%	44.1%	47.8%	67.5%	58.6%
Switzerland	17.6%	8.6%	24.1%	6.7%	15.7%	16.7%	1.5%	15.7%	20.0%	10.0%	31.1%	26.7%	11.9%	7.8%	3.4%	11.6%
Norway	6.8%	33.3%	3.7%	3.3%	0.0%	4.2%	6.2%	1.3%	0.0%	2.9%	2.2%	0.0%	25.4%	31.1%	2.2%	6.4%
Canada	4.1%	6.2%	2.4%	0.0%	2.9%	6.5%	9.2%	2.0%	6.7%	7.1%	8.9%	13.3%	3.4%	3.3%	5.7%	4.9%
Japan	2.7%	3.7%	2.9%	0.0%	6.9%	4.2%	3.1%	4.6%	0.0%	5.0%	2.2%	0.0%	3.4%	1.7%	2.4%	3.1%
Australia	4.1%	0.0%	1.9%	6.7%	2.0%	0.8%	1.5%	1.3%	0.0%	2.9%	4.4%	10.0%	0.0%	1.7%	3.7%	2.5%
S. Africa	0.0%	0.0%	1.3%	0.0%	1.0%	0.0%	3.1%	0.0%	0.0%	0.7%	2.2%	0.0%	0.0%	0.6%	3.4%	1.6%
Israel	0.0%	0.0%	1.6%	0.0%	2.9%	1.5%	0.0%	2.6%	0.0%	1.4%	2.2%	0.0%	0.0%	0.6%	1.7%	1.5%
Other	4.1%	11.1%	6.9%	66.7%	12.7%	5.7%	6.2%	9.2%	46.7%	8.6%	13.3%	26.7%	11.9%	5.6%	10.0%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SDC - M&A.

TABLE 10: **Breakdown by non-EU target countries of international operations, 2000-2001**

	Target country														
Bidder country:	**B**	**DK**	**D**	**GR**	**E**	**F**	**IRL**	**I**	**L**	**NL**	**A**	**P**	**FIN**	**S**	**UK**	**EU**
USA	60.8%	37.0%	55.2%	16.7%	55.9%	60.5%	69.2%	63.4%	26.7%	61.4%	33.3%	23.3%	44.1%	47.8%	67.5%	58.6%
Switzerland	17.6%	8.6%	24.1%	6.7%	15.7%	16.7%	1.5%	15.7%	20.0%	10.0%	31.1%	26.7%	11.9%	7.8%	3.4%	11.6%
Norway	6.8%	33.3%	3.7%	3.3%	0.0%	4.2%	6.2%	1.3%	0.0%	2.9%	2.2%	0.0%	25.4%	31.1%	2.2%	6.4%
Canada	4.1%	6.2%	2.4%	0.0%	2.9%	6.5%	9.2%	2.0%	6.7%	7.1%	8.9%	13.3%	3.4%	3.3%	5.7%	4.9%
Japan	2.7%	3.7%	2.9%	0.0%	6.9%	4.2%	3.1%	4.6%	0.0%	5.0%	2.2%	0.0%	3.4%	1.7%	2.4%	3.1%
Australia	4.1%	0.0%	1.9%	6.7%	2.0%	0.8%	1.5%	1.3%	0.0%	2.9%	4.4%	10.0%	0.0%	1.7%	3.7%	2.5%
S. Africa	0.0%	0.0%	1.3%	0.0%	1.0%	0.0%	3.1%	0.0%	0.0%	0.7%	2.2%	0.0%	0.0%	0.6%	3.4%	1.6%
Israel	0.0%	0.0%	1.6%	0.0%	2.9%	1.5%	0.0%	2.6%	0.0%	1.4%	2.2%	0.0%	0.0%	0.6%	1.7%	1.5%
Other	4.1%	11.1%	6.9%	66.7%	12.7%	5.7%	6.2%	9.2%	46.7%	8.6%	13.3%	26.7%	11.9%	5.6%	10.0%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SDC - M&A.

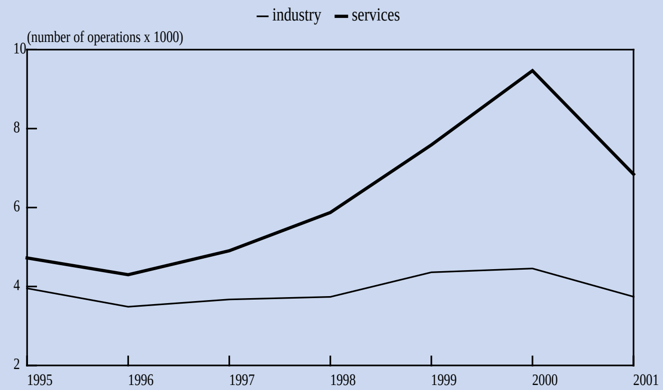
Table 10 presents the data for the main countries where EU firms made extra-Community acquisitions in 2000-2001. Once again, the USA is in first place and is particularly favoured by British and Irish bidders. Switzerland comes second, followed by Poland. EU firms also show a strong interest in the other Central and Eastern European Countries, especially the Czech Republic and Hungary. The strong interest of EU firms in making acquisitions in the CEEC dates from 1999, when the number of deals rose to almost 500, more than doubling by comparison with 1998 and almost tripling in terms of value. Because of geographical proximity and traditional economic links, acquisitions in the CEEC account for large proportions of the international bids of Greek, Austrian and Finnish firms. Norway, by reason of its strong ties with the other Scandinavian countries, and Brazil, because of its links with the Iberian countries, also account for significant shares of the total.

6. Sectoral aspects

6.1 All M&A operations with a EU target

During the period 1995-2001 a majority of M&A operations targeting European firms took place in the service sector, which accounted for about 67% of total deals in 2000-2001 (see Graph 11). Until the peak year of 2000, mergers and acquisition in services also experienced the strongest rates of growth, before falling markedly in 2001. On the other hand, the number of deals targeting industrial sectors remained

GRAPH 11: **Sectoral composition of the number of operations with a EU target** (1995-2001)



Source: SDC-M&A.

The SIC sectoral classification: 1-digit classes and main 2-digit sectors

0	**Agriculture, forestry, and fisheries**
1	**Mineral Industries and Construction**
10-14	Mineral industries
15-17	Construction
2 - 3	**Manufacturing**
20	Food and kindred products
21	Tobacco manufactures
22	Textile mill products
23	Apparel and other textile products
24	Lumber and wood products
25	Furniture and fixtures
26	Paper and allied products
27	Printing and publishing
28	Chemicals and allied products
29	Petroleum and coal products
30	Rubber and miscellaneous plastics products
31	Leather and leather products
32	Stone, clay, glass, and concrete products
33	Primary metal industries
34	Fabricated metal products
35	Industrial machinery and equipment
36	Electrical and electronic equipment
37	Transportation equipment
38	Instruments and related products
39	Miscellaneous manufacturing industries
4	**Transportation, Communication, and Utilities**
41	Local and interurban passenger transit
42	Motor freight transportation and warehousing
43	Postal Service
44	Water transportation
45	Transportation by air
47	Transportation services
48	Communications
49	Electric, gas, and sanitary services
5	**Distribution**
50-51	Wholesale trade
50-59	Retail Trade
6	**Finance, Insurance, and Real Estate**
60	Depository institutions
61	Nondepository credit institutions
62	Security, commodity brokers, and services
63	Insurance carriers
64	Insurance agents, brokers, and service
65	Real estate
67	Holding and other investment offices
7-8	**Service Industries**
70	Hotels, rooming houses, camps and oethr lodging places
72	Personal services
73	Business services
75	Automotive repair, services and parking
76	Miscellaneous repair services
78	Motion pictures
79	Amusement and recreational services
81	Legal services
87	Engineering and management services
9	**Public Administration**

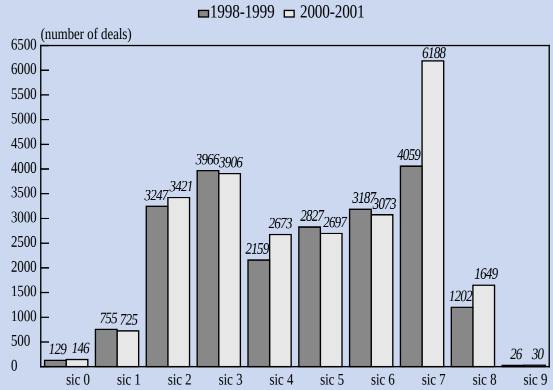
more stable during the reference period, responding relatively less to the evolution of the economic cycle, both in its upswing and recent downturn.

During 2000-2001 the most targeted one-digit sector of M&A operations with a EU target was the service sector SIC 7 (service industries), accounting for around 25% of total deals, up from around 19% in the previous two years (see Graph 12).

The other one-digit sectors registering the highest levels of M&A activity were the two manufacturing sectors SIC 3 (Glass, plastics, metals, machinery, computers, transport equipment etc), with about 16% of the total, and SIC 2 (food, textiles, paper, chemicals etc.) with about 14%. SIC 6 (finance, insurance and real estate) was in fourth place with 13%.

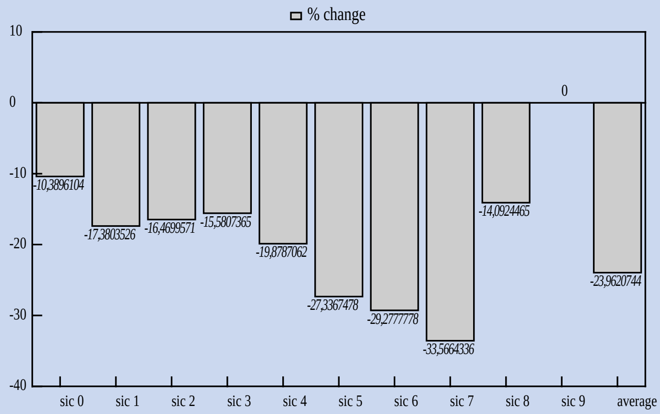
M&A operations in the SIC 7 (and to a lesser extent SIC 6) sector peaked during 2000, and then fell markedly in 2001, indicating a high responsiveness of restructuring in service sectors to overall economic conditions. On the other hand, M&A deals in the two most manufacturing sectors SIC 3 and SIC 2 were relatively less responsive than the average deals to the evolution of the general economic environment (see Graph 13).

GRAPH 12: **Sectoral breakdown of M&A with a EU target**



Source: SDC-M&A.

GRAPH 13: **Evolution of the number of M&A by sector (2000-2001)**



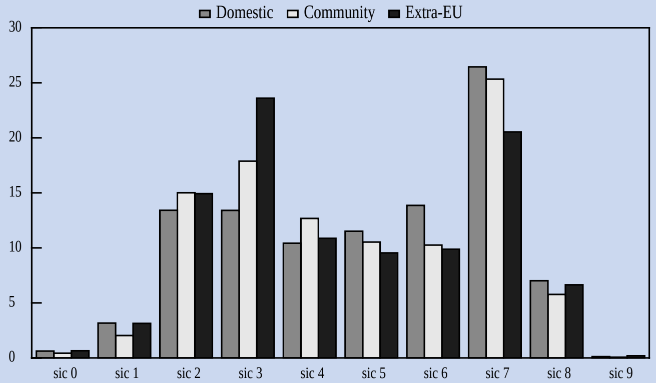
Source: SDC-M&A.

6.2 Intra and extra-EU operations

We now analyse the sectoral composition of M&As with a Community target according to the origin of the bidder, to get a clearer understanding of the degree of completion of the Internal Market and of the strategies pursued by foreign companies with interests in the EU (Graph 14).

Intra-EU operations (domestic and Community) accounted for around 83% of total M&A with a European target during 2000-2001, and of these a large majority (78%) was conducted within national borders. During the last two years, domestic and Community M&A operations both targeted the same main sectors of activity, in order of importance SIC 7, 3 and 2. This seems to suggest that European companies' acquisition strategies are not distorted to a noticeable extent by the presence of national borders within the EU. It is however worth noting that the share of M&A operations in the manufacturing sectors SIC 2 and 3 remains higher for Community than for domestic deals. Also noticeable is the stronger (and increasing) weight of operations in SIC 4 (network industries) at the cross-border level compared to the domestic one.

GRAPH 14: **M&A with a EU target: sectoral composition of domestic, community and extra-EU operations**
(percentage of number of operations of each type)



Source: SDC-M&A.

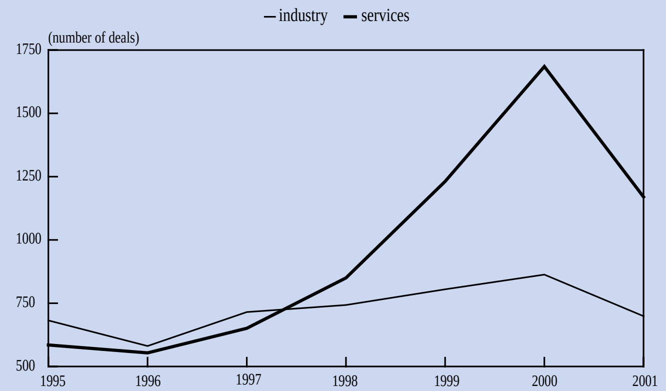
The majority of extra-EU M&A with a Community target also took place in the same main sectors of activity (i.e. SIC 7, 3 and 2). However, the ranking was different, with operations originating outside the EU mainly targeting the SIC 3 manufacturing sector, while intra-EU deals were dominated by the SIC 7 service sector. Generally, the share of industrial sectors in extra-EU operations with a Community target was higher (42% of total deals during 2000-01) than the comparable figure for intra-EU deals (32%).

Graph 15 shows that by 1998 services had become the major target of Community M&A operations. During 2000-2001, the share of the services sectors in Community operations had grown to about 65% of the total, only slightly below their share of domestic deals (69% in the same period). The growth of cross-border service providers may be the precursor of greater integration of the markets concerned, which have so far remained much more fragmented than the markets for goods.

6.3 Focus on the most targeted sectors

The hotels, personal and business services sector (SIC 7) was by far the most targeted one-digit sector, accounting for around 25% of total operations with a Community target. M&A in the SIC 7 sector were dominated by the sub-sector "Business serv-

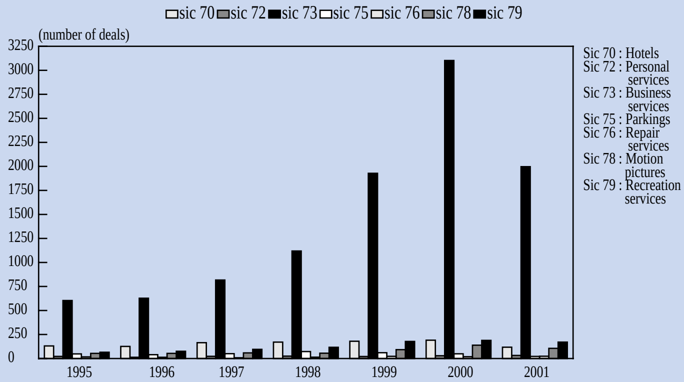
GRAPH 15: **Sectoral composition of the number of Community M&A operations**
(1995-2001)



Source: SDC-M&A.

ices” (SIC 73). This experienced very high rates of growth during the second half of the 1990s and, on its own, accounted for almost 21% of total M&A operations with a Community target during 2000-2001 (Graph 16). By contrast, the second most important sub-sector, wholesale distribution (SIC 50 and 51) accounted for less than 6% of the total.

GRAPH 16: **Composition of total deals with a EU target in SIC 7**
(1995-2001)



Source: SDC-M&A.

Within SIC 73, the most targeted sectors were respectively software (SIC 7372) with 1381 deals in 2000-2001, information retrieval services (SIC 7375) with 1341 M&As and, to a lesser extent, other computer related services (SIC 7379) and other business services (SIC 7389), all increasing their relative weight within the SIC 73 sub-sector compared to the previous two years (Table 11)[1].

TABLE 11: **Targeted sector SIC 73 - Business services (domestic and cross-border operations with an EU target)**

Targeted sector	SIC 4	Number 2000-2001	% total business services (2000-01)	% total business services (1998-99)
Pre-packaged software	SIC 7372	1381	27%	26%
Information retrieval services	SIC 7375	1341	26%	15%
Other computer related services	SIC 7379	715	14%	10%
Other business services	SIC 7389	496	10%	9%

Source: SDC - M&A.

Within the SIC 3 manufacturing sector, the most targeted sub-sector was “Industrial machinery and equipment” (SIC 35), accounting for 3,5% of total deals with a Community target during 2000-2001 (Table 12). Within this sub-sector, of special relevance were M&A in Electronic computers (SIC 3571), Other special industry machinery (SIC 3559) and Other general industry machinery (SIC 3569).

TABLE 12: **Targeted sector SIC 35 - Industrial machinery and equipment (domestic and cross-border operations with an EU target)**

Targeted sector	SIC 4	Number 2000-2001	% total SIC 35 (2000-01)	% total SIC 35 (1998-99)
Electronic computers	SIC 3571	93	11%	7%
Other special industry machinery	SIC 3559	77	9%	7%
Other general industry machinery	SIC 3569	72	8%	7%

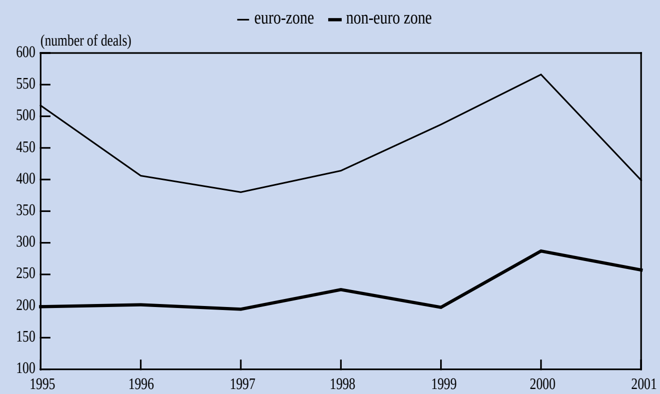
Source: SDC - M&A.

6.4 Evidence of an EMU effect?

We now consider the evolution of M&A activity in the **banking and insurance sectors** (SIC 60 to 64) to see if there is evidence of an EMU effect.

During the period 1997-2000, M&A operations targeting financial companies from the euro-zone[2] grew at rates comparable to operations involving companies from the other EU Member States (respectively 49% and 47%). The only difference was that the growth pattern of M&A outside the euro-zone was less stable than the one within the euro-zone, falling in 1999 only to pick up again strongly in the following year (Graph 17).

GRAPH 17: **EMU effect in banking and insurance?**
(SIC 60-64)

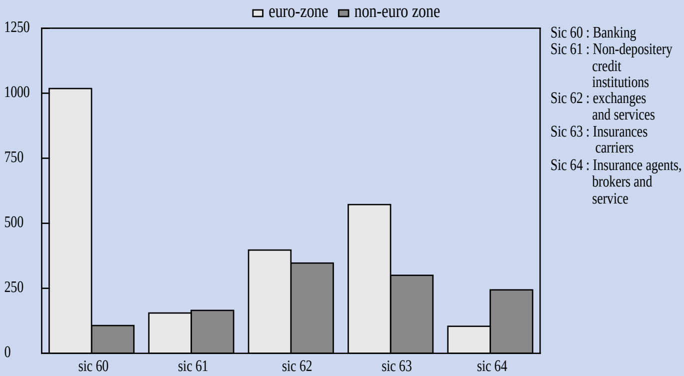


Source: SDC-M&A.

1 These results differ from the observations made in the previous edition of this supplement, as the revision of the data base has led to extensive reclassification of deals at the four-digit level within SIC 73, notably from 7371 (Computer programming services) to 7372 (pre-packaged software).
2 Although Greece joined the final stage of EMU in 2001, operations targeting Greek companies are included among those of the euro-zone from the outset, to account for possible anticipation effects, which are more likely to be observed in this sector than at the level of the total. There are no changes in the trend if Greece is included in the euro-zone only as of 2001.

On examining the individual components of the financial services sector, we find that bank mergers (SIC 60 - “Depository institutions”) account for the largest part of the operations in the sector within the euro-zone but a relatively small part in the other Member States (see graph 18). This is probably because banking has for a long time been more concentrated in Denmark, Sweden and the U.K. than in Germany and Italy, for example, so that there is less scope for further consolidation. Indeed, Italy alone accounted for 25% of all operations in this sector in the EU in the period 1997-2001, a much higher proportion than its share of total M&A activity.

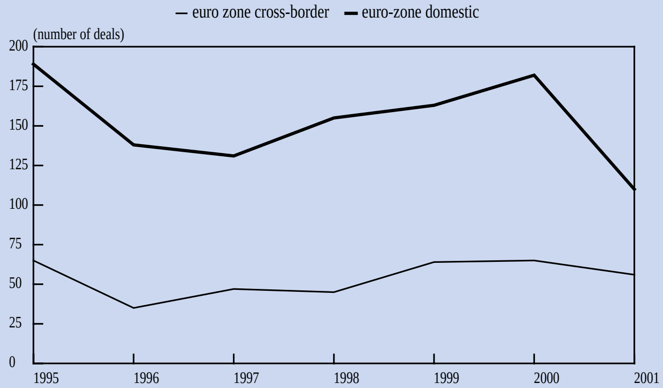
GRAPH 18: **EMU effect in banking and insurance?**
(Number of deals 1997-2000)



Source: SDC-M&A.

M&A operations in the depository institutions sub-sector were characterised by a substantial difference according to whether they took place within or outside the euro-zone: while the former experienced high rates of growth in the run-up to EMU and the following year (about 39% growth between 1997-2000), the latter remained substantially stable (4% growth). To test for some evidence of a EMU effect within this sub-sector, we compare the evolution of M&A deals within the euro-zone, distinguishing between domestic and cross-border operations. Should we find higher growth rates of cross-border rather than domestic M&A, this could be taken as a strong indication of an EMU effect to the extent that cross-border M&A are evidence of a pan-European restructuring of the financial services sector (see graph 19).

GRAPH 19: **EMU effect on depository institutions?**
(SIC 60)



Source: SDC-M&A.

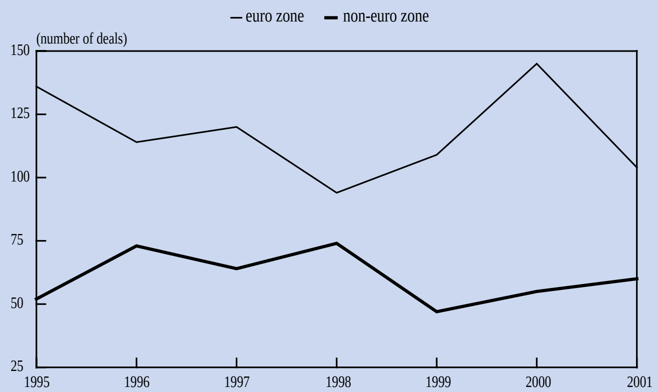
What is observed is that the increase in the number of M&A within the euro-zone before the launch of EMU and the following year was in reality mainly driven by domestic M&A activity, particularly in Germany and Italy. Consolidation in the domestic banking industry may in turn have several determinants. In the case of a number of Member States, restructuring may largely be explained by the search for higher competitiveness in highly fragmented sectors. To the extent that it has intensified the competitive pressure on domestic banking (or at least has created the expectation that this will occur), the completion of the Economic and Monetary Union may thus have contributed to the consolidation of the sector at the domestic level.

A quite similar picture emerges when assessing the possible impact of the EMU on consolidation in the insurance sector. Between 1998 and 2000 (i.e. the years where the anticipation effects and the adjustment to new conditions can be expected to be the largest), the number of M&A deals concluded within the euro-zone increased considerably, as opposed to a declining trend outside the euro-zone. Also interestingly, M&A outside the euro-zone increased during 2001 despite the general economic slowdown.

Looking more closely at the geographical nature of M&A within the euro-zone, the data show that the increase in M&A activity in the insurance sector resulted from a rise in the number of domestic operations, while the number of cross-border deals actually fell in the reference period (see graph 20).

Overall, the effects of the implementation of the Economic and Monetary Union on the restructuring of the financial sector are at best ambiguous. Indeed, in three of the other sub-sectors of the financial services category (“Non-depository institutions” (SIC 61), “Security and commodity brokers” (SIC 62) and “Insurance agents, brokers and services” (SIC 64)), there was more growth in M&A activity outside the euro-zone than within it during the reference period 1997-2000.

GRAPH 20: **EMU effect on insurance?**
(SIC 63)



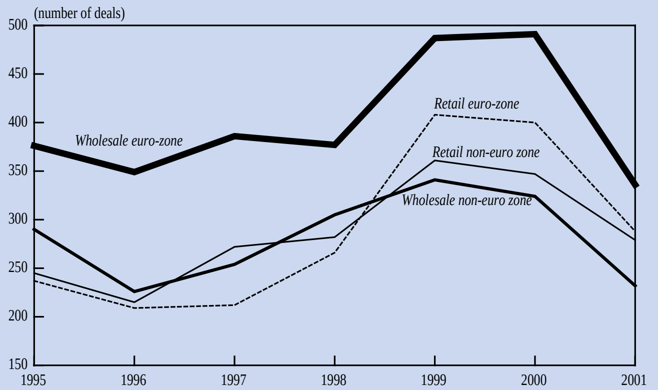
Source: SDC-M&A.

Looking at another potentially EMU-sensitive sector, **distribution** (wholesale and retail trade, SIC 50 to 59) we notice a relatively high level of M&A activity both within and outside the euro-zone[3] during the period 1997-2000, before the drop

3 As in the case of the banking and insurance sector, M&A operations involving Greek firms are considered part of the euro-zone.

of 2001 (Graph 21). The only significant difference is the much higher rates of growth in retail trade M&A within the euro-zone (about 89% growth between 1997-2000 compared to a growth of 28% outside the euro-zone). On the other hand, growth rates of M&A in wholesale trade were comparable in the two areas (about 27% during the same period).

GRAPH 21: **EMU effect on wholesale and retail trade?**

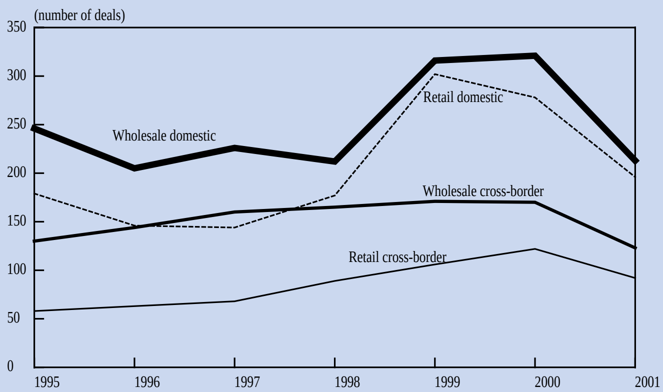


Source: SDC-M&A.

Given that the implementation of EMU has decreased transaction costs (notably through higher international price transparency and the removal of exchange rate risks) and thus opportunities for arbitrage within the euro-zone, we would expect it to give a boost to cross-border operations in the distribution sector, rather than to domestic operations.

The interesting result shown in Graph 22 is that the high levels of growth of M&A in distribution, both wholesale and retail, have been driven to a large extent by domestic operations, for which the transaction costs effect of the euro plays a smaller role. Therefore, it seems probable that EMU has not played a major role in determining the level of M&A activity in the distribution sector as a whole.

GRAPH 22: **M&A in wholesale and retail trade in the euro-zone**



Source: SDC-M&A.

PART B: LARGEST DEALS IN 2000 AND 2001

1. Larger deals at world level

Tables 13a and 13b show the most important deals for 2000 and 2001 at world level. In the 2000 world top ten, both

TABLE 13a: **Larger deals at world level in 2000**

	Target full name	Bidder full name	TSIC 2	Bid value in euros (Bn)
1	Time Warner Inc (USA)	America Online Inc (USA)	78	160,7
2	SmithKline Beecham PLC (UK)	Glaxo Wellcome PLC (UK)	28	74,9
3	Nortel Networks Corp (CAN)	Shareholders (CAN)	37	65,5
4	Orange PLC (Mannesmann AG) (UK)	France Telecom SA (FRA)	48	50,8
5	Texaco Inc (USA)	Chevron Corp (USA)	29	50,4
6	Liberty Media Group (AT&T) (USA)	Shareholders (USA)	48	48,8
7	Seagram Co Ltd (CAN)	Vivendi SA (FRA)	78	42,2
8	SDL Inc (USA)	JDS Uniphase Corp (USA)	37	41,6
9	JP Morgan & Co Inc (USA)	Chase Manhattan Corp 60 (USA)	38,9	
10	Beijing Mobile and Allied (CHINA)	China MobileLtd (CHINA)	48	38,9

TABLE 13b: **Larger deals at world level in 2001**

	Target full name	Bidder full name	TSIC 2	Bid value in euros (Bn)
1	AT&T Broad & Internet (USA)	Comcast Corp (USA)	48	85,1
2	Hughes Electronics Corp (GM) (USA)	EchoStar Comm. Corp (USA)	49	30,1
3	Compaq Computer Corp (USA) (announced)	Hewlett-Packard Co (USA)	36	28,4
4	American General Corp (USA)	American Int. Group Inc (USA)	63	25,2
5	Dresdner Bank AG (GER)	Allianz AG (GER)	60	22,5
6	Immunex Corp (USA)	Amgen Inc (USA)	28	18,9
7	Conoco Inc (USA)	Phillips Petroleum Co Inc (USA)	29	17,4
8	Bank of Scotland PLC (UK)	Halifax Group PLC (UK)	60	16,7
9	NextWave Telecom Inc (USA)	United States of America (USA)	48	15
10	Wachovia Corp (USA)	First Union Corp (USA)	60	14,8

Source: SDC - M&A.

targets and bidders are quite diversified in terms of nationality but American operations remain predominant. The predominance of US operations is more pronounced in 2001.

The value of the operations in 2000 was very large but remains similar to the level of 1999, although the top-ranking operation in 2000 would have been only the second in 1999. For 2001, the value of the operations has decreased. The second deal of 2001 would not appear in the 2000 top ten and would have been only the fifteenth deal. The largest operation involving a Community enterprise is second in 2000 and only fifth in 2001, whereas the Vodafone AirTouch/ Mannesmann deal was first in 1999.

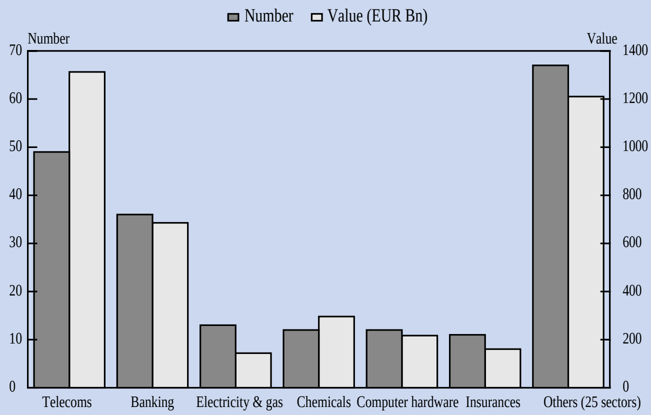
In 2000, the telecommunications sector remained quite attractive but less than in the previous year. In 1999, this sector was the object of seven of the largest deals, including the record-breaking Vodafone AirTouch/Mannesmann merger, valued at €204.8 billion.

The other deals in 2000 are diversified. The largest deal (Time Warner – America Online) concerns the motion picture industry, as does the deal between Seagram and Vivendi (7th deal). The other sectors concerned are pharmaceuticals (SmithKline Beecham PLC – Glaxo Wellcome PLC), oil (Texaco – Chevron), transportation systems (SDL Inc – JDS Uniphase Corp) and banking (JP Morgan – Chase Manhattan Corp)

In 2001, the financial services sector (SIC 60 and 63) was the most active with 4 deals n the top ten. The other sectors are pharmaceuticals, electronics, telecommunications, computer hardware and oil. However, these was a decrease in the values of deals in conformity with the trend observed in Part A.

In the basis of the fifty largest deals of each year between 1998 and 2001 (aggregated representing 200 largest deals - see Graph 23), the telecommunications sector has been the most important targeted sector both in number (49 largest deals) and value (€ 1312.7 billion), followed by the banking sector at some distance (36 deals and a total value of € 685,4 bn). There have also been important mergers in the chemicals (including pharmaceuticals), electricity and gas, computer hardware and insurance. The other sectors represent 67 major operations in 25 different sectors, for a total amount of € 1210 billion (less than the telecommunications sector).

GRAPH 23: **Sectors of the 50 largest deals of each year between 1998 and 2001**



Source: SDC-M&A.

2. Larger deals involving Community enterprises

Tables 14a and 14b show the most important deals for 2000 and 2001 where a Community enterprise was target or bidder.

In 2000, the largest deal involving a Community enterprise was the deal between SmithKline Beecham PLC and Glaxo Wellcome PLC, both UK enterprises, for € 74.5 billion in the pharmaceutical sector. The second largest was the deal between Orange/Mannesman PLC (UK) and France Télécom (FRA). The main targeted sector was the telecommunications sector with 3 deals amongst the 10 largest deals for a total amount of € 96.9 bn.

TABLE 14a: **Larger deals at world level in 2000**

	Target full name	Bidder full name	TSIC 2	Bid value in euros (Bn)
1	SmithKline Beecham PLC (UK)	Glaxo Wellcome PLC (UK)	28	74,9
2	Orange PLC (Mannesmann AG) (UK)	France Telecom SA (FRA)	48	50,8
3	Seagram Co Ltd (CAN)	Vivendi SA (FRA)	78	42,2
4	VoiceStream Wireless Corp (USA)	Deutsche Telekom AG 48 (GER)	30,8	
5	Bestfoods (USA)	Unilever PLC (UK)	20	27,6
6	Allied Zurich PLC (UK)	Zurich Allied AG (SWI)	63	20,4
7	Granada Compass PLC (UK)	Shareholders (UK)	70	19,1
8	Seat Pagine Gialle SPA (ITA)	Tin.it (ITA)	27	18,8
9	Airtel SA (ESP)	Vodafone AirTouch PLC (UK)	48	15,3
10	Iberdrola SA (ESP)	Endesa SA (ESP)	49	15,2

TABLE 14b: **Larger deals at world level in 2001**

	Target full name	Bidder full name	TSIC 2	Bid value in euros (Bn)
1	Dresdner Bank AG (GER)	Allianz AG (GER)	60	22,5
2	Bank of Scotland PLC (UK)	Halifax Group PLC (UK)	60	16,7
3	Fortis(NL)NV (NED)	Fortis (BEL)	63	13,6
4	Billiton PLC (UK)	BHP Ltd (Australia)	10	12,8
5	BT Wireless Plc (UK)	Shareholders (UK)	48	12,6
6	De Beers Mines Ltd (SAF)	DB Investments (UK)	14	12,1
7	USA Networks Inc (USA)	Vivendi Universal SA (FRA)	48	12
8	France Telecom SA (FRA)	France Telecom SA (FRA)	48	11,6
9	American Water Works Co Inc (USA)	RWE AG (GER)	48	8,5
10	PowerGen PLC (UK)	E.On AG (GER)	49	8,2

Source: SDC - M&A.

In 2001, the telecommunications sector accounted again for the largest number of the top deals. These 4 operations represent an amount of € 44.7 billion. By contrast, in 1999 the first deal – Mannesmann/Vodafone – accounted for € 204.8 bn and this deal was also the largest at world level.

The financial services sector remains quite important with the 3 largest deals at EU level in 2001. However, this sector no longer represents the largest share of major EU operations, as it did hitherto. The operations in this sector are mainly domestic operations. The other sectors included in the list are: electricity, chemicals and mining.

At EU level, we observe the same decrease in the value of the deals as at the world level. The largest deal in 2001 would be only the sixth in 2000. Only the first and the second deals of 2001 would appear in the 2000 top ten.

PART C: COMMUNITY CONTROL OF MERGERS

1. Overview

By the end of 2001, a total of 1908 mergers had been notified to the Commission under the Merger Regulation[4] since it came into force on 21 September 1990 (see Table 15). 53 of these were found to fall wholly or partly outside the scope of the Regulation and 77 were later withdrawn.

The number of notifications rose every year between 1993 and 2000, when it reached 345. There was a slight decline to 335 in 2001, as a result of a considerable reduction in the number of cases in the telecommunications and media sectors (from 65 in 2000 to just 4 in 2001). The number of notifiable cases is very small in comparison with total M&A activity, because of the narrow scope of the Merger Regulation, which only affects mergers involving very large firms and excludes mergers between firms which each obtain more than two-thirds of their turnover in the same Member State.

The Regulation provides for examination of mergers in two phases. In the first phase, after determining that the operation falls within the scope of the Regulation, the Commission must decide either that it does not raise serious doubts as to its effect on the conditions of competition (Article 6(1)(b)) or that there are serious doubts necessitating the more detailed analysis of Phase 2 (Article 6(1)(c)). A total of 1660 mergers were cleared in Phase 1, although in 86 of these cases the Commission only gave its approval after the parties had committed themselves to measures designed to eliminate potential harm to the conditions of competition.

The Phase 2 procedure was completed in 95 cases. In 20 of these the Commission decided on closer ex-amination that there were no serious competition problems, while in 57 cases the competition problems were resolved when the parties offered appropriate remedies. 18 mergers were forbidden, less than 1% of the total number of cases. These were:

- Aérospatiale/De Havilland (1991),
- MSG Media Service (1994),
- Nordic Satellite Distribution (1995),
- RTL/Veronica/Endemol (1995),
- Gencor/Lonrho (1996),
- Kesko/Tuko (1996),
- Saint Gobain/Wacker Chemie/NOM (1996),
- Blokker/Toys ’R’ Us (1997),
- Bertelsmann/Kirch/Premiere (1998),
- Deutsche Telekom/Betaresearch (1998),
- Airtours/First Choice (1999),
- Volvo/Scania (2000),
- MCI Worldcom/Sprint (2000),
- SCA/METSÄ Tissue (2001),
- General Electric/Honeywell (2001),
- Schneider/Legrand (2001),
- CVC/Lenzing (2001),
- Tetra Laval/Sidel (2001).

2. Sectoral distribution of cases

In the two years 2000-2001, industry accounted for 51% of the cases dealt with under the Merger Regulation and services for 47% (Table 16). Mergers of industrial firms are more likely to fall within the scope of the Merger Regulation than service sector mergers, because industrial companies are on average larger and they are more often multinational. Consequently, the sectoral distribution of Merger Regulation cases does not reflect that of overall M&A activity, where services account for 62% of all operations involving EU firms, whether as bidders or targets[5]. Nevertheless, the share of the

TABLE 15: **Notifications and decisions under the Merger Regulation**

	1990-1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
Cases notified	288	110	131	172	235	292	345	335	**1908**
Notifications withdrawn	11	4	6	9	9	12	14	12	**77**
Cases on which a final decision was taken[1]	274	109	125	134	235	268	341	334	**1820**
of which:									
Article 6.1a (outside scope of Regulation)	25	9	6	4	6	1	1	1	**53**
Article 6.1b (Phase 1 clearance) without undertakings	222	90	109	118	207	236	293	299	**1574**
Article 6.1b (Phase 1 clearance) with undertakings	9	3	0	2	12	19	28	13	**86**
Article 9 (full referral to national authorities)	1	0	3	1	1	3	2	1	**12**
Article 8.2 (clearance) without undertakings	5	2	1	1	3	0	3	5	**20**
Article 8.2 (clearance) with undertakings	10	3	3	7	4	8	12	10	**57**
Article 8.3 (prohibition)	2	2	3	1	2	1	2	5	**18**

1 Not all notifications were the subject of a decision or withdrawal in the same year. In two cases where mergers had already taken place, supplementary decisions were taken to require the restoration of effective competition. These decisions are not included here.

Source: DG COMP.

4 Council Regulation (EEC) no. 4064/89 of 21 December 1989, OJ L395 of 30.12.1989, as amended by Council Regulation (EC) no. 1310/97 of 30 June 1997, OJ L180 of 9.7.1997.

5 In this section, electricity and gas are classified as industrial sectors, following normal European practice. In the SIC classification used by SDC, they are treated as service sectors.

TABLE 16: **Sectoral breakdown of cases decided under the Merger Regulation in the period 2000-2001 and comparison with deals recorded by SDC**

	% of cases decided under the Regulation	% of mergers recorded in SDC[1]
Agriculture, forestry, fisheries	**0,4**	**0,6**
Industry of which:	**51,3**	**34,9**
Chemicals	8,7	3,6
Electrical and optical equipment	8,6	5,1
Electricity and gas	5,3	2,8
Motor vehicles and parts	4,9	1,0
Food products	4,1	3,6
Mechanical engineering	3,3	3,0
Other transport equipment	3,1	0,7
Other metal goods	2,8	2,8
Paper	2,5	1,0
Rubber and plastic products	1,6	1,4
Non-metal mineral products	1,5	1,5
Extraction of crude petroleum and natural gas	0,7	0,8
Mining and quarrying	0,7	0,5
Publishing, printing, recorded media	0,7	3,1
Construction	**1,6**	**2,0**
Services of which:	**46,7**	**62,5**
Post and telecommunications	11,4	2,6
Business services	8,6	25,6
Banking, financial services	4,3	4,4
Wholesale distribution	4,3	5,4
Insurance and pension funding	3,4	2,3
Supporting and auxiliary transport services, travel agencies, tour operators	3,3	1,2
Retail distribution	2,4	3,3
Recreational and cultural	2,4	3,2
Air transport	1,2	0,8
Sale, maintenance of motor vehicles, sale of motor fuel	1,2	0,7
Land transport	0,9	1,6

1 All operations involving a firm based in the EU, either as bidder or as target, including national operations.

Source: DG ECFIN calculations from information provided by DG COMP, SDC.

service sectors in Merger Regulation cases has increased considerably since 1990.

Notifiable operations are heavily concentrated in sectors where the average size of firms is very large, such as chemicals, electrical and optical equipment, the energy sector and telecommunications.

As a consequence of privatisation and liberalisation, the number of cases in the network industries continues to increase steeply, as it has done since 1995. In 2000-2001, post and telecommunications accounted for over 11% of all cases, while electricity and gas accounted for a further 5%.

In the last two years there has been a very sharp rise in the number of cases arising in the business services sector. 58 mergers were notified in this sector (nearly 9% of the total), compared to only 27 in the previous ten years. Many of these cases are related to information and communication technologies and involve large software or telecommunications firms.

3. Some major cases in 2000-2001

In 2000 the Commission examined its first major merger case in the electricity sector, the merger between the German electricity companies *Veba* and *Viag*. In order to ensure that competition in the recently liberalised German electricity market would not be impeded by a dominant duopoly between Veba/Viag and their biggest competitor RWE, the operation was approved only on condition that numerous holdings, especially in the eastern part of Germany, would be divested, thus severing important links between the two new groups. VEAG, a major electricity producer jointly controlled by the duopolists, was transformed into an independent competitor. The undertakings also provided for improvements to the rules governing access to the transmission network operated by the two leading groups. In dealing with the case, the Commission cooperated closely with the German Bundeskartellamt, which was investigating the parallel merger of RWE and VEW and cleared it under similar conditions.

The Commission also imposed conditions on the merger between *TotalFina* and *Elf Aquitaine,* which would have risked impeding effective competition on several product markets in France. These included the wholesale market in domestic heating fuel, the retail market in liquefied petroleum gases (LPG) and the sale of motor fuel on French motorways. The parties were required to sell a large proportion of their transport and storage assets in order to allow non-integrated producers to remain competitive in the retail market for domestic heating fuel and for LPG and thus exert downward pressure on prices. On the market for motor fuel on motorways, the required divestment of 70 petrol stations will preserve conditions of effective competition and allow the entry of a large retail operator (Carrefour) into a sector traditionally monopolised by energy groups.

In the motor vehicle sector, the Commission forbade the *Volvo/Scania* merger in 2000. The Commission found that, because of differences in technical requirements and purchasing habits, as well as significant price discrimination even between neighbouring countries, markets for heavy trucks and buses are still national in scope. The Commission's investigation revealed that the merged entity would have had a market share of 90 % in Sweden and between 50 % and 70 % in Ireland, Norway and Finland. The merger was regarded as particularly dangerous for competition because Volvo and Scania were each other's closest competitors.

Another merger forbidden in 2000 was that between the two US telecommunications companies MCI WorldCom and Sprint. The Commission considered that it would have created a dominant position on the market for the provision of top-level or universal Internet connectivity. The investigation showed that, although the share of intra-European traffic in total Internet traffic was increasing, even the largest European Internet connectivity providers were still very dependent on the top-level (American) providers for global connectivity and were unable to place any competitive constraint on the top-level providers. The Commission therefore took the view that the Internet still has a hierarchical structure and the relevant market for the purposes of the assessment of the case was the market for the provision of top-level or universal Internet connectivity. MCI WorldCom was the leading firm in that market, while Sprint was one of its main competitors. The Commission concluded that the merger would create a dominant position and that, given the hierarchical structure of the Internet and the global nature of the market, this would have affected consumers everywhere in the world. The European Commission and the US Department of Justice dealt with this case in parallel. In accordance with the bilateral agreement between the EU and the USA, the two authorities conducted independent and separate investigations but there was close cooperation between them.

Another major case in the telecommunications sector in 2000 was the *Vodafone/Mannesman* merger, which raised competition concerns on the emerging market for pan-European seamless mobile telephony services. The provision of these services is heavily dependent on the ability of operators to locate their customers precisely when the latter are beyond the reach of their own network. The Commission investigation showed that there is an emerging demand for such services from internationally mobile customers, in particular large corporations. The merger would give the new entity a unique footprint in the common market, with sole control of mobile operators in eight Member States and joint control in three. It appeared that the merged entity would be in a unique position to build an integrated network and offer advanced seamless pan-European services. On the other hand, the merged entity's competitors, because of their fragmented footprints, would not be able to duplicate this in the short or medium term. The merger was finally cleared after the parties undertook to give other mobile operators the possibility of providing pan-European advanced seamless services to their customers by using the integrated network of the merged entity. However, because of the rapid changes in the mobile telephony sector, notably the award of UMTS licences and the fact that competitors will in all likelihood try to build up alternative infrastructure, this undertaking was limited to a period of three years.

In the *America Online Inc (AOL)/Time Warner* case of 2000, the Commission was concerned that the merged entity would have controlled the leading source of music publishing rights in Europe. AOL is the leading Internet access provider (ISP) in the US and the only ISP with a pan-European presence. Time Warner is one of the world's biggest media and entertainment companies with interests in television networks, magazines and book publishing, music, filmed entertainment and cable networks. The concentration created the first vertically integrated Internet content provider. Because of AOL's structural and contractual links with the publisher Bertelsmann, the new entity could also have preferred access to Bertelsmann's content and, in particular, to its large music library. As a result, the new company would have controlled the leading source of music publishing rights in Europe, a market of which one third is held by Time Warner and Bertelsmann together. The Commission therefore considered that the new entity would have become dominant in the emerging market for Internet music delivery online by becoming a 'gatekeeper' and thus being able to dictate the conditions for the distribution of audio files over the Internet. It would also have been possible for the new entity to format Time Warner's and Bertelsmann's music in such a way as to be compatible only with AOL's music player (Winamp), but not with competing music players. On the other hand Winamp would have been able to play the music of competing record companies, which generally use non-proprietary formats. The new entity would thus also have been able to impose Winamp as the dominant music player. The Commission was able to approve the transaction thanks to a package of commitments aimed principally at severing the links between Bertelsmann and AOL.

The most controversial case of the year 2001 was the proposed merger of *General Electric* (GE) and *Honeywell*. The Commission considered that GE alone already had a dominant position in the markets for jet engines for large commercial and large regional aircraft. Its strong market position combined with its financial strength and vertical integration into aircraft leasing were among the factors that led to the finding of GE's dominance in these markets. The investigation also showed that Honeywell is the leading supplier of avionics and non-avionics products, as well as of engines for corporate jets and of engine starters (a key input in the manufacturing of engines). The Commission came to the conclusion that the combination of the two companies' activities would have resulted in the creation of dominant positions in the markets for the supply of avionics, non-avionics and corporate jet engines and would also strengthen GE's existing dominant positions in jet engines for large commercial and regional aircraft. These effects would have resulted from horizontal overlaps in some markets, as well as the extension of GE's financial power and vertical integration to Honeywell's activities and the combination of the two firms' complementary products. Given the nature of the competition concerns resulting from the proposed merger and the fact that the GE was unable to propose undertakings that would have removed all competition concerns, the Commission had no choice but prohibit the merger.

Another merger forbidden in 2001 was that between the French electrical equipment makers *Schneider* and *Legrand.* Schneider's public takeover offer for Legrand was announced before the operation was notified to the Commission and the takeover was completed before the Commission was able to take its final decision. The main effects of the merger on competition relate to low-voltage electrical equipment, i.e. all the systems used for electricity distribution and the control of electrical circuits in homes, offices or factories. The Commission's investigation showed that the two companies have very high combined market shares in several national markets for electrical switchboards, wiring accessories (in particular, sockets and switches and fixing and connecting equipment) and certain products for industrial use (industrial pushbuttons and low-voltage transformers) or for more specific applications (for example, emergency lighting). In France, the merger gave rise to particularly serious problems over virtually the whole range of products concerned and would, in most cases, have resulted in the strengthening of a dominant position. Competition problems were also identified in Denmark, Spain, Greece, Italy, Portugal and the United Kingdom. Since the takeover had already been carried out, the Commission had to examine the practical arrangements for separating the two companies to ensure that effective competition would be restored. In January 2002, the Commission announced that Schneider would not be allowed to retain more than 5% of Legrand's shares, as a higher stake would reduce Schneider's incentive to compete actively with Legrand. The Commission also considered that the restoration of effective competition requires Legrand to be kept intact and not dismantled. However, the Commission left Schneider free to choose the form and legal arrangements for the separation.

In the electricity sector, the Commission investigated two mergers concerning the state-owned *Electricité de France* (EDF) in 2001. The first of these cases concerned EDF's acquisition of joint control over *Energie Baden-Württemberg* (EnBW), Germany's fourth largest electricity company. The Commission identified competition problems in the French market for supply of electricity to eligible customers. Eligible customers in France are industrial clients which consume more than 16 gigawatt-hour/year (GWh/year) and are free to chose their electricity supplier according to French and Community law. The investigation concluded that EDF enjoyed a dominant position in this market, with a market share of approximately 90%. By acquiring joint control EnBW, EDF could not only eliminate a significant potential competitor but also increase its potential for retaliation in Germany and would thus become less exposed to competition from other German companies. The Commission's investigation also showed that EnBW has a controlling stake in WATT AG, a major Swiss electricity producer, while EDF has traditionally enjoyed a close commercial relationship with ATEL, another important player in the Swiss electricity market. This means that through its shareholding in EnBW, EDF would also considerably strengthen its foothold in Switzerland and eliminate WATT as a potential competitor on the French market. Finally, the transaction would also significantly contribute to EDF's outstanding position as a Pan-European supplier. In order to solve the competition concerns identified by the Commission, EDF submitted commitments regarding access to generation capacity in France, the French hydroelectric generator CNR and EnBW's participation in WATT. In particular, EDF agreed to make available to competitors 6,000 MW of generation capacity located in France. Access to this capacity will be granted by means of auctions conducted by EDF under the supervision of a trustee. This undertaking will have an initial duration of five years to allow alternative supply sources to develop but can be extended by the Commission. The Commission considered that the commitments offered by EDF would eliminate the strengthening of EDF's dominant position.

The Commission also authorised, subject to conditions, the acquisition of joint control over the Spanish electricity company *Hidroeléctrica del Cantábrico* (Hidrocantábrico) by Spanish Grupo Villar Mir and EnBW. As initially notified to the Commission, the operation would have led to the strengthening of the existing collective dominant position of Endesa and Iberdrola on the Spanish wholesale electricity market by weakening potential competition from imports. In the Commission's opinion, having gained a foothold in Spain through EnBW and with access to Hidrocantabrico's significant electricity generation capacity, EDF would have no incentive to increase its exports to Spain. It would therefore be likely to resist any increase in the commercial capacity of the interconnector which transmits electricity across the Pyrenees. Capacity on the French-Spanish interconnector is already scarce, creating a barrier to Spanish electricity imports and resulting in the market's isolation from other continental electricity markets to the detriment of customers. To eliminate these concerns, EDF and the operator of the French electricity grid, RTE, undertook to increase the commercial capacity of the interconnector between France and Spain substantially, thereby creating the conditions for greater electricity trade to and from Spain to the benefit of Spanish customers.

Principal economic policy measures – November 2001

Community (EU-15)

8.11. The Governing Council of the ECB decides

• to reduce the minimum bid rate on the main refinancing operations by 0.5 percentage points to 3.25 % (effective 14 November);

• to reduce the interest rate on the marginal lending facility and on the deposit facility by 0.5 percentage points to 4.25 % and 2.25 %, respectively (effective 9 November).

Belgium (B)

8.11. The Prime Minister details the social plan accompanying the SABENA bankruptcy. The total cost should amount to around BEF 15.6 billion, which will be paid by the "Fonds de fermeture des entreprises" and by the ONEM (Office national de l'Emploi). BEF 4 billion will have to come from the 2001, 2002 and 2003 government budgets. These figures are indications based on the assumption of the loss of 5 100 full-time jobs.

Denmark (DK)

8.11. Following the ECB, the Nationalbank lowers the repo rate by 50 basis points to 3.60% and the discount rate by 50 basis points to 3.25%.

Germany (D)

None.

Greece (EL)

None.

Spain (E)

None.

France (F)

None.

Ireland (IRL)

15.11. The Abridged Estimates are published, containing planned voted expenditure for 2002. An increase of 8.2% over the likely outturn for 2001 is envisaged, two-thirds of which go to the areas of health and education. The Abridged Estimates are subject to revision in the budget, to be published on 5 December.

26.11. The Government publishes its health strategy covering the next 7 to 10 years. Its 121 actions are aimed at, inter alia, reducing hospital waiting lists, developing primary care into a round-the-clock integrated community-based service and reforming the planning and funding processes. In 2001 prices, implementation of the strategy is estimated to cost just over IEP 10 billion (about 11% of nominal GDP), of which IEP 6.1 billion is for capital spending (in addition to the health-related funds in the National Development Plan 2000-2006) and IEP 4 billion for current spending.

Italy (I)

15.11. Italy submits the update of its stability programme which covers the period 2001-2005. The general government budget deficit is projected at 1.1% of GDP in 2001, 0.3 percentage points higher than in the last update. The targets for the following years are confirmed. In particular, the budget is projected to be balanced from 2003 onward.

Luxembourg (L)

30.11. The 2001 update to the stability programme of Luxembourg is sent to the Commission. According to this update, the general government surplus, which amounted to a record 6.2% of GDP in 2000, should decline significantly, due to slower growth in activity in 2001 and 2002, to tax cuts in both years as well as fast rising expenditure. The surplus should, however, remain substantial, amounting to 4.1% of GDP in 2001 and 2.8% in 2002 before rising again to 3.1% in 2003 and 3.4% in 2004.

Netherlands (NL)

None.

Austria (A)

27.11. The Council of Ministers approves the 2001 update of the stability programme, extending to 2005. It remains virtually unchanged from its predecessor, foreseeing budgetary balance in 2002 and 2003, and a small surplus in 2004 which increases to 0.5% of GDP in 2005.

Portugal (P)

9.11. The Council of Ministers decides to raise the minimum wage by 4.1% in 2002 (attaining € 348 per month).

29.11. The second corrective budget of the year is approved (the first was in June). It increases the debt ceiling to offset the shortfall in tax revenue. On a national accounts basis, it should not have an impact on the general government deficit.

Finland (FIN)

13.11. The government proposes to raise unemployment benefits for the year 2002. The government agreed to lift benefits by a total of € 1.3 a day starting from 1 March 2002. The government also decides to propose € 25 million of extra funding for lowering unemployment in 2002. The additional appropriation is proposed to be used for active labour market policies and is estimated to improve employment by 3 000 persons. These two measures increase central government spending by € 0.2 billion (or 0.1% of GDP) in 2002.

22.11. The government approves the 2001 update of the stability programme. The programme, extending to 2004, foresees a central government surplus of just under 2% of GDP in 2001 (compared with a surplus of 3.5% in 2000) and a sharp decrease to 0.3% in 2002 while even a deficit is projected for 2003 and a balanced budget for 2004. General government surpluses are still projected at $4^3/_4$% of GDP in 2001 (2000: 6.9%) and above 2% in 2002-04. General government debt is estimated to decline from 44.0% of GDP at end-2000 to 41.8% at end-2004. The economic projections foresee growth of only 0.6% in 2001 accelerating to 1.6% in 2002, 2.7% in 2003 and 3.0% in 2004. Following proposals of the real income tax reductions of 1.8% of GDP for 2000-02, a target of the government programme of income tax relief of € 1.7-1.9 billion is exceeded before the end of the term of the government in 2003.

Sweden (S)

9.11. The government approves the 2001 update of the convergence programme. The programme, extending to 2004, foresees a general government surplus of 4.6% of GDP in 2001 (compared with a surplus of 4.1% in 2000) and a lower surpluses of 2.1% in 2002, 2.2% in 2003 and 2.3% of GDP in 2004. General government debt is estimated to decline from 55.6% of GDP at end-2000 to 45.2% at end-2004. The economic projections foresee growth of 1.7% in 2001 accelerating to 2.4% in 2002, 2.6% in 2003 and 2.3% in 2004.

12.11. The government decides on the guidelines to be followed by the Swedish National Debt Office in managing the central government debt in 2002. The foreign currency debt is to be amortised by SEK 15 billion in 2002. The National Debt Office will be allowed to deviate SEK 15 billion above or below the stated amortisation rate. The Government lowered the level of amortisation this past summer to cut the costs of debt management from SEK 35 billion to SEK 25 billion. The reduction was made in view of the weakness of the krona. The same reason is behind the decision on the 2002 guidelines.

United Kingdom (UK)

8.11. The Bank of England's Monetary Policy Committee votes to reduce the repo rate by 0.5% to 4%.

27.11. The Chancellor makes his Pre-Budget Statement to Parliament and announces

– a guaranteed cash rise in the state pensions up to 2003-2004 and an indexed rise thereafter

– a pensions credit from 2003 to specifically assist pensioners on a low average income

– guaranteed minimum winter fuel allowance for pensioners throughout term of current parliament

– a "one off" boost to health spending of GBP 1 billion in 2002-2003

– proposal for measures to raise productivity and aid research and development

– proposal for tax incentives to encourage people back into employment

– consideration of long-term funding for the health service

The announced, and costed, measures imply a stimulus equivalent to 0.2% of GDP in a full year.

Price (excluding VAT) in Luxembourg

	EUR
Single copy	10
Series A – *Economic trends* (10 issues per year)	48
Series B – *Business and consumer survey results* (11 issues per year)	51
Series C – *Economic reform monitor* (4 issues per year)	25

Printed in Belgium

http://europa.eu.int/comm/economy_finance

OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg

KC–AS–01–012–EN–C