

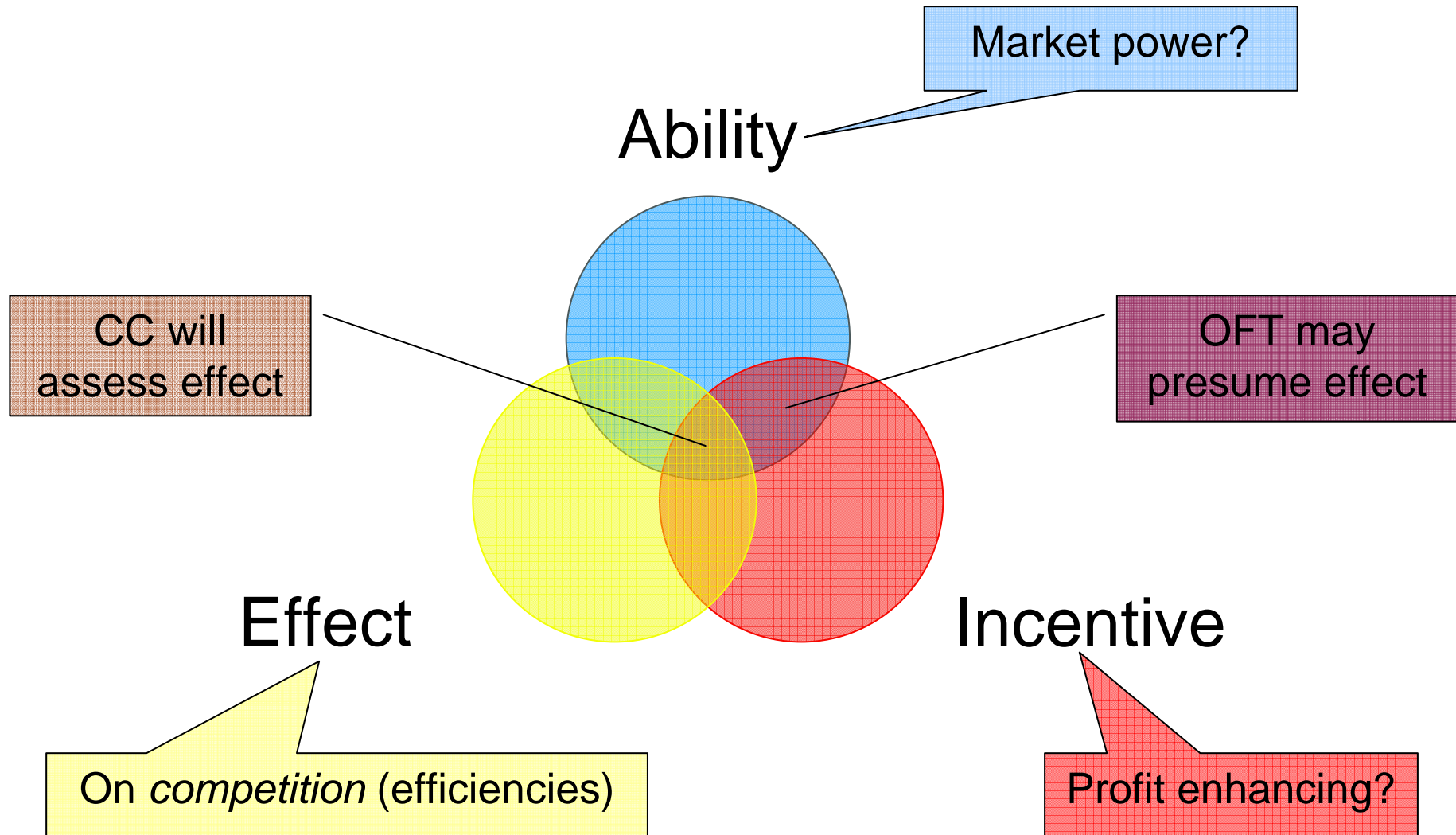
Non-horizontal mergers

Chris Walters, Assistant Director
of Mergers, OFT

Overview

- Commercial rationale for non-horizontal mergers generally efficiency enhancing
 - Except diagonal mergers
- However, many ‘vertical’ mergers in the UK have been horizontal mergers with vertical effects
 - May not be efficiency enhancing
 - But focus of attention on horizontal harm, not vertical
- Lack of suitably general models of foreclosure implies need to ‘future proof’ framework

Framework



Ability

- Typically depends on whether merged firm has market power
 - Market share ‘threshold’ 30%
 - In horizontal mergers with vertical effects, only a degree of market power significant enough to cause unilateral effects will cause concern over vertical effects
 - ‘Important’ input
 - One that if foreclosed would adversely affect the competitiveness of the merged firm’s rivals

Incentive

- Depends on whether foreclosure is profit-enhancing
 - Trade off between
 - profit lost from selling less in market where merged firm leverages its market power
 - and profit gained from selling more /at a higher price in market where merged firm forecloses its rivals
 - Limited role for ‘vertical arithmetic’ (especially at first phase) but use aspects heuristically

Effect

- On competition, not one (or a few) competitors
- Given incentive and ability, OFT may presume adverse effect
- CC will not, instead assessing effect of most likely profit-enhancing strategy
- (Supply-side) efficiencies. Must be....
 - Very likely to arise and timely
 - Merger specific
 - Passed on to customers



Diagonal mergers

