

Specific Features of Cross-Border M&A in Some Sectors of Regional and Global Economy (2)*

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In contrast to automotive and telecommunications industries, the defense and aerospace sector of the world economy is developing predominantly on national basis or, in cases of North America and Europe, in a regional framework at most.

Also, from the viewpoint chosen for this series of articles, Asia remains only of minor interest. In Japan, the defense and aerospace complex remains relative less developed and clearly “domestic” by nature. In China and Russia (which to boot is, at least economically, more European than Asian), this vital and prestigious sector, although traditionally rather strong, still exists and develops particularly within the state economy, i.e., generally outside emerging, more or less normal, market environment with competition and corporate realignment processes inherent in it.

So, in this article, we shall focus our attention on the U.S. and Western Europe, as well as on cases characterizing the use of M&A with an aim of corporate realignment and further centralization of capital on national and regional, rather than on global, basis.

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Consolidation of Corporate Power in the Defense and Aerospace Complex

The last decade brought considerable changes in the corporate structures of the defense and aerospace sectors of U.S. and European economies resulting from private investment and M&A activities. In both regions, the business scale grew up dramatically, megamergers brought together major players, weaker companies were taken over or forcefully made to join their stronger rivals, i.e., further centralization of sectoral capital took place (or its horizontal integration). It should be added that all this happened on national and/or intra-regional basis only, without any signs of inter-regional (“transatlantic”) corporate consolidation, notwithstanding the NATO and all assertions of strategic cooperation and solidarity while facing diverse and multiple challenges of the modern world.

According to widespread opinion, those are strategic concepts and concrete policies of the Pentagon and the U.S. State Department regarding safety of classified information and national security that create obstacles to transatlantic integration of American and European defense and aerospace companies. So to speak, friendship is a good thing, but let’s keep our powder dry separately.

While purely economic considerations are in favor of steps aiming at corporate consolidation and organizational improvements in defense and aerospace sector in the NATO framework, the interests of keeping American political and technological leadership intact impede signing of corresponding agreements.

In principle, the U.S. is interested in transatlantic mergers promising higher effectiveness of defense expenditures and preventing a growing split with the European Union and its emergence as “Fortress Europe”. It has become an especially topical issue after the EU summit in Cologne

(June 1999) brought about the decision to create an independent multinational army force (50,000 to 60,000 men), not subordinate to NATO and intended for peace-keeping operations and as a rapid-reaction force in emergency situations (a magnificent project for which EU states committed themselves to have ready up to 200.000 troops, together with 350 aircraft and 100 naval units).¹

“The European Union is trying to raise its profile in defense and security matters,” wrote Gilles Andreani, a senior fellow at the International Institute for Strategic Studies in an analytic article on issues of transatlantic partnership. “It is increasingly clear that Europe wants to be a full partner to the United States, not a subcontractor.”²

However, Washington is not ready for a full-scale and equal partnership in matters of military technology. It seems that, so far, cooperation between the U.S. and Europe is feasible only on American conditions and under American control aiming at keeping American monopoly in some vital high-tech fields.³

In October 1999 (i.e., after Kosovo and Cologne), at a dinner attended by U.S., British, French and German government weapons procurement officials, U.S. Deputy Defense Secretary John Hamre delivered a message that in no vague terms told European allies it is too early for transatlantic megamergers in the defense industry. While more cooperation in this vital field must be encouraged, stressed he, “we need a little more time before we get to the megamerger category.”⁴

In their turn, European companies are not satisfied with prospects of remaining junior partners of the American defense giants and of alliances in which they would have auxiliary and executive functions only. “We are not interested in subcontracting,” was the dry answer of an executive of the French concern Aerospatiale Mantra on a question regarding prospects of transatlantic integration in aerospace and defense industry.⁵

Thus, at least until the end of 2000, the merger game among aerospace companies of the two continents was played out separately on both sides of the Atlantic divide.

North America. In the U.S., it seems, the first real megamerger of the 1990s was the \$14 billion deal between Boeing Co. and McDonnell Douglas, in which the first has absorbed the second thus creating what at that time was regarded as “the world’s largest aerospace company.”⁶ The Pentagon advised FTC commissioners there were no significant contracts coming up in the next five years for which Boeing and McDonnell Douglas could have been expected to compete. Also, the four FTC members said the deal found “virtually unanimous” support among 40 commercial airlines questioned about it. As a result, before the end of 1997, the merger went through, leaving Boeing the one and only North American company manufacturing aircraft for civil aviation (because Lockheed focused on defense contracts and practically left the commercial market).

As a reaction on this megadeal, an analogic transaction between Martin Marietta and Lockheed has taken place in which “a smallish firm best known, on the civilian side, for building the Challenger’s ill-fated fuel boosters” became something like senior partner for one of the oldest and mighty U.S. defense contractors.

Norman Augustin, Martin Marietta’s energetic boss, is now nicknamed “King Kong of the global defense industry”, while his \$30 billion company, called Lockheed Martin, is “the world’s biggest defense conglomerate”, and getting bigger all the time. Ironically, it now owns most of General Dynamics, the powerful company whose head, Bill Anders, a friend of Augustin, once told reporters the defense industry would soon consist of “one gorilla, two chimpanzees and six marmosets”, gibing that Augustin “was clearly a marmoset.”⁷

So, Augustine is now heading a whole set of Pentagon contractors active in different segments of U.S. defense industry. Since 1990, Lockheed and Martin Marietta, between themselves, have consumed 17 companies and pieces of companies, including such biggest in the business as General Electric, LTV Aerospace and RCA. And Lockheed Martin became No. 1 contractor for the Pentagon, NASA and the Energy Department.

In contrast to Boeing and McDonnell merger, Martin Marietta and Lockheed amalgamation provoked accusations of “gigantism” and “excessive vertical integration” threatening to bring about stagnation and a decline in efficiency, notwithstanding all Augustine’s assertions that his company “is determined to buy parts from the best subcontractors—whether or not they’re part of his conglomerate.”⁸ “In fact, Lockheed Martin may be getting *too* big – if not for its own good than the nation’s,” according to some U.S. experts as quoted by Michael Hirsh in his critical analysis of the epic megadeal published in Newsweek.

“We have lost the innovative edge with consolidation,” says Wolfgang Demisch of BT Securities. In some sectors, like heavy tanks, nuclear carriers and submarines, only one monopoly supplier effectively remains. Even Augustine agreed that Lockheed “may be jousting for the skies next century with just Boeing as a rival – whether in fighters, rockets or spacecraft.”⁹

Soon after, another Pentagon contractor, Raytheon, took over Hughes and Texas Instruments. Lockheed “lobbied stringently” against this deal on the ground that “it put to many competitors on one team”, while federal organs were accused that, by permitting it, Washington “all but eliminated real competition in the air-to-air missile business.”¹⁰

Thus, it virtually made the cup run over when, in spring 1998, Lockheed Martin got ready to take over Northrop Grumman Corp., its

major competitor in aircraft and electronics areas. As long as for six consecutive years (1992-1997), neither the Pentagon nor the federal controlling organs have ever been vetoing any of the M&A in the defense and aerospace industry, and their cumulative value reached \$100 billion. From about 50 major defense contractors, actually, only four remained intact. This time, however, it was clearly a case of diamond cut diamond, and the deal has been stopped in its tracks, obviously forever.

However, Lockheed Martin did not let itself be discouraged, and after several months it embarked on an attempt to buy, for \$2.7 billion, a satellite access provider, Comsat Corp., established in 1962 “to keep then telephone monopoly AT&T from extending its control to international satellite communications.”¹¹ Completion of this two-phase cash-and-stock deal was contingent upon pending federal legislation aimed at privatizing the worldwide satellite communication network. Also, the acquisition had to be approved by the FCC and Comsat shareholders.

The rebuff did not discourage Northrop Grumman either. Before the end of 2000, it announced its intention to buy Litton Industries for \$3.8 billion, with an aim of consolidating its position in South California defense complex and moving “out of midsize and into the top tier of defense, aerospace and IT companies,” according to Northrop chairman, Kent Kresa.¹² Some analysts said the move made sense for Northrop and Litton, both of which have increasingly played supporting roles in recent years as rivals Lockheed Martin and Boeing grew with acquisitions and garnered larger contracts.

In 2000, also Boeing which, among other achievements, is the world’s biggest commercial satellite maker paid \$3.75 billion in cash to General Motors to take over control of Hughes Electronics, together with Hughes Electron Dynamics and Spectrolab, two other fragments of the “Hughes Empire” which make satellite components. “Boeing intends to be

No. 1 in space,” said Phil Condit, company’s chairman and CEO. “This acquisition is a significant step forward in executing our goal of becoming the industry leader in integrated, space-based information and communications.”¹³

In the meantime, before the end of 2000, one of the oldest and most diversified U.S. concerns, General Electric (GE), tried to consolidate its position in aerospace industry as well. For \$49 billion in its own shares, GE was set to buy control over Honeywell International Inc., thus creating a combined business that would include the world’s largest supplier of engines, electronics and systems for commercial aircraft. However, the deal appeared to be seriously jeopardized after the European Union’s authorities had set “intolerable conditions” for its approval declining Honeywell’s offer to divest some of its businesses that generate \$2.2 billion in annual revenue and demanding that the partners dispose of \$ 6 billion in assets¹⁴

Europe. In the EU area, one could also observe active moves toward realignment of defense and aerospace companies aiming at higher efficiency and competitiveness in global rivalry with Americans.

For example, efforts have been devoted to restructure Airbus Industrie engulfed in titans’ struggle with Boeing to share the world’s commercial jet orders. “There is a clear need for greater integration and central authority,” stated Airbus managing director Noel Forgeard, adding his firm assurance: “I am optimistic about the transformation of Airbus.”¹⁵

The aim is “to convert Airbus into an integrated company” thus enabling it to compete more effectively. In other words, this international consortium must take shape of a regular private company while, until lately, many believed it to be arranged too loosely and its existing “partnership structure” to be in need of a radical overhaul. Airbus was often accused of

logical progress we can name the notorious Kosovo war missions, which revealed a considerable lag between Europe and the U.S. both in technological and purely military terms (especially, as far as strategic aviation is concerned).

From summer 1999, a whole series of big M&A has taken place in Europe. It began with two intra-national (“domestic”) deals: British Aerospace (BAe) purchased Marconi Electronic Systems, a “defense arm” of Britain’s General Electric Co. (GEC), while Aerospatiale entered an all-French tieup with Matra, a defense division of private defense company Lagardere.²² This way, BAe emerged as “the biggest defense and aerospace company outside the U.S.,”²³ while Aerospatiale Matra grew big enough to consider new deals with its strong continental (first of all, German) counterparts as well.

After these “preparative” steps, pressure to go further with European mergers grew even stronger. First, DaimlerChrysler Aerospace A.G. (DASA) and Spain’s state-owned Construcciones Aeronauticas SA (CASA) signed an agreement to merge into “Europe’s first multinational aerospace company.”²⁴

Then, DASA and new-born Aerospatiale Mantra “struck another of the grand bargains that are building the New Europe.”²⁵ As a result of this German-French megamerger, now famous European Aeronautic Defense and Space Co. (EADS) has emerged, with a capital share of French state of merely 15 percent, a level to which it was watered down from 47 percent the French government organs had held in Aerospatiale before it went on a M&A spree. All in all, Germany (through DASA) received a 30 percent share in EADS, just like the French side (15 percent through private Lagardere group, and 15 percent owned by the state), while 40 percent of shares were offered for free sale on the stock markets in Paris, Frankfurt and Amsterdam. Notably, EADS headquarters has also been placed in the

Netherlands (wasn't it a symbolic sign of European solidarity?).

By that time, DASA could already control the Spanish share in Airbus Industrie concern (the 4.6-percent stake of CASA). So, the overall stake of the new international group, EADS, in Airbus' capital reached 80 percent (before, German and French side had held about 37 percent each), while the capital stake of British Aerospace (BAe) remained unchanged at 20 percent. It was a major step in efforts "to turn Airbus into a company", using the words of Rainer Hertrich, co-chief executive of EADS.²⁶ Thus, from the property relations' point of view at least, Airbus has taken a rather accomplished shape, more and more looking like a German-French enterprise with a British minority stake.

Let us remember that it was DaimlerChrysler CEO Juergen Schrempp who initiated the creation of EADS in the first place. And now, EADS takes the third position among the world's biggest defense and aerospace companies, behind Boeing and Lockheed Martin, while Airbus Industrie fights against Boeing for the No. 1 spot in civil aircraft-building.

Among other activities, EADS will participate in production of military jets (like Eurofighter, Rafale and Tornado), and also make helicopters (through Eurocopter), the satellite launching systems (the Ariane project), satellites, and various defense hardware.²⁷

"The integration of Europe's military and civil aerospace, rocket, electronics and other strategic industries will lead almost inevitably to some form of European preference in procurement," writes William Pfaff, and goes on: "That, precisely, is what Washington has wanted to avoid. If it happens, it is likely to be seen in the U.S. as a hostile development. But there is a U.S. preference in procurement. The U.S. buys American."²⁸

From Airbus shareholders, only British Aerospace remained completely outside the EADS group. This could not go on forever and, before the end of 1999, Marconi Electronic Systems, controlled by BAe,

announced its plans to join with DASA and Aerospatiale Mantra to form a three-way joint venture called Astrium. Analysts said Astrium effectively would become “Europe’s main space-commerce company, similar to Airbus Industrie’s role as Europe’s maker of jet airliners.”²⁹ Astrium was also expected to be the main player in Europe’s Ariane space program, as well as to focus on satellite observation of the Earth, telecommunications, fundamental and applied science, and launchers.

EADS will hold 75 percent of Astrium’s shares, while BAe will hold the rest, according to DASA spokesman Rainer Ohler. Viewing it as a sign of continued drive toward consolidation, he stressed that with 8,000 people and annual sales of 2.25 billion euro (\$2.45 billion at that time - *A.B.*), Astrium will be “one of the world’s leading space companies.”³⁰

In early spring 2001, a deal to create a new major European missiles firm, MBDA, took place between the Italian group Finmeccanica, Britain’s BAe Systems and European defense consortium EADS. The deal would bring together Alenia Markoni Systems (AMS) owned equally by Finmeccanica and BAe, and Matra BAe Dynamics (MBD) jointly owned by EADS and BAe. It was expected that EU antitrust officials would OK the deal.³¹

And one more, this time all-British, deal is worth mentioning. As early as September 1999, the engineering group Rolls-Royce launched a 576 million pounds (\$934 million) bid for famous Vickers, “in a move to create a marine engines giant bearing the renowned RR brand.”³²

Naturally, defense and aerospace consolidation in Europe provokes worries in America. Although, after Kosovo, the technological gap between U.S. and European forces has become a fact of life which the Pentagon has since repeatedly emphasized, “it is, for the most part, quantitative rather than qualitative,” William Pfaff believes.³³ Modern realignment campaign in the EU high-tech sector creates opportunities to overcome existing weak-

nesses which are more organizational by nature than rooting in inadequacies of European science.

“U.S. government and industry did not expect the pan-European aerospace industry mergers this fall (of 1999 - *A.B.*) that have produced Europe’s own “champions,” denoted Pfaff. “They expected U.S. manufacturers to absorb European companies to establish U.S.-led transatlantic alliances.”

The new reality is that Europeans have already established their independent European “identity” in military aerospace and allied defense industry. European companies are now expected to buy from their own manufacturers. Exactly this, Pfaff believes, Washington calls “Fortress Europe.”

Although “no one in Europe seriously imagines a transatlantic break”, the situation is nonetheless one in which “the underlying forces, both political and industrial, are more competitive than cooperative,” concluded Pfaff his analysis.³⁴

As for Japan, here the development of defense industry is being hampered by the clauses of the acting Constitution which proclaim nation’s refusal of its own military force. It can be felt in civil branches of aerospace industry as well, the fact that may be illustrated by the absence of well-developed aircraft-building, as well as of production of helicopters and rockets able to launch satellites.

Nevertheless, Japan has its own space program, as well as allied R&D with an accent on electronic navigation equipment. Until lately, it was Nissan group that played first violin in this important high-tech segment. However, now Nissan frees itself from some R&D directions in the course of its overall restructuring policy. Thus, in early 2000, Nissan Motor Co. agreed to sell its aerospace and defense division to Ishikavajima-Harima Heavy Industries Co. (IHI) as part of a streamlining effort.

An IHI spokesman said the proposed deal (worth between 40 billion and 47 billion yen) would help enhance his firm's aerospace and defense division because the two firms complement one another in the scope of their business. Nissan's rockets, for example, are based primarily on solid-fuel propellants, while IHI's vehicles use liquid fuel. Most of Nissan's defense contracts are with the Ground Self-Defense Force, whereas IHI's main customers are the Air Self-Defense Force and the Maritime Self-Defense Force.³⁵

The sale was a part of Nissan's effort to concentrate corporate resources on its core automotive business under the so-called Revival Plan unveiled by the new management in October 1999.

However, Japan is not whole Asia or, even more so, not whole Asia-Pacific region. More and more, both American and European companies pay attention to the "most promising markets" of this vast economic area, i.e., to South Korea, Singapore, Taiwan and Australia.

In spring 2000, for example, during region's premier air show Asian Aerospace 2000, \$3.5 billion worth of contracts were announced, nearly triple the figure at the previous show (1998) when Asia bore the blunt of a financial crisis.

Soon after the merger of aerospace divisions of Samsung, Daewoo and Hyundai, which created Korean Aerospace Industries group, Lockheed Martin made a joint bid with France's Rafale Group and Aerospatiale Matra to take a stake in it.

Another French group, Thomson-CSF, and Samsung Electronics Co. have a 50:50 joint venture to make parts for indigenous South Korean ground-to-air missiles (the first ever transfer of non-American missile-related technology to Seoul).

Singapore's state-owned ST Aerospace launched a partnership with Boeing Airplane Services for conversion of Boeing 757 freighters, and with

Lockheed Martin for support and upgrading services for F-16 fighter jets and C31 planes.

In contrast, troubled Indonesian aircraft builder PT Industri Pesawat Terbang Nusantara was actively seeking but not finding foreign partners in a bid to become a leader in small to medium-size civilian and military transport aircraft.³⁶

Returning to Japan, it is worthwhile to notice a hot discussion in influential political circles of this country mulling a revision of the Constitution which could change the situation in which aerospace and defense business exists and develops.

With Japan's high technological level in mind, its striving to create a modern and competitive production of aircraft, helicopters, and maybe also space shuttles and mighty rockets capable of launching big satellites looks only natural.

There are three well-established and complete centers of aerospace, i.e., aircraft-building and rocket-building, industry in the world, and namely the USA (or North America), the EU, and Russia (or, wider, the Commonwealth of Independent States, the rather notorious CIS). All of them will undoubtedly go on with development and perfection of their facilities, organization and international relations aimed at production cooperation. So, it seems worthwhile for Japan to consider the vital issue: on which of these three aerospace centers to focus while expanding and modernizing aerospace complex of its own and enhancing international research-and-development, as well as production-cooperation ties?

So far, Japan's self-defense authorities, manufacturing firms and airlines have established normal working relations with major aircraft-makers and air-transport support companies, mostly American (like Boeing and Lockheed) but also European (particularly, with Airbus Industrie). Moreover, Airbus already uses some Japanese firms as contractors

(Mitsubishi Heavy Industries may serve as a good example) and, in January 2001, announced its plan to open a Japanese unit (Airbus Japan) to boost ties with local aircraft component makers. Also, Airbus officials try persuading the Japanese aerospace industry to take part in the \$10.7 billion A380 (two-deck 555-seat passenger jet, the biggest in the world) development program, “as risk and revenue sharing partners or as suppliers.”³⁷

However, in our view, in cases both of North American and European aerospace complexes, any Japanese firm (and Japan as an industrial power) may not count with more than a modest role of junior partner for global leaders which are already well-established and, in general terms, self-sufficient.

On the other hand, manufacturing profiles of Japan and Russia are clearly complementary, including their aerospace specialization. For example, Russia (in cooperation with aerospace facilities on the territory of modern Ukraine) has gathered advanced experience in designing and manufacturing a wide range of fuselage used in aircraft-making both for air force and civil aviation (from the supersonic jet nicknamed the “Concordsky” to the famous heavy cargo freighter Ruslan, the largest plane currently in commercial use).³⁸ At the same time, Japan is expert in airborne navigation and communications systems, in electronics in general, etc.

Should Japan and Russia at last find a satisfactory settlement to their long-pending and annoying territorial dispute, and this can happen any year (not to say any month) now, a good opportunity would arise for large-scale and long-term economic cooperation between the two East Asian neighbors, in which joint development and manufacturing of aircraft and other aerospace hardware could form an interesting direction.

Surely, specialists could name more than one factor making Japan's

aerospace cooperation with Russia especially attractive and giving ground for the two countries to join efforts and resources in the formation of a new, predominantly Asian, regional aerospace complex capable of competing with those created in North America and Europe.

And, vice versa, there are weighty arguments in favor of the idea of Russia's cooperation exactly with Japan, which remains one of world leaders with plenty of capital and major achievements in many fields of modern technology. In particular, joining forces with such mighty partner as Japan's manufacturing could, in our view, effectively help Russian civil aircraft-building in gaining international acclaim necessary for an eventual breakthrough in global markets.

Global Alliances of Major Air-Carriers

Obviously, time is not ripe yet for a wave of cross-border M&A in the sphere of international civil aviation. On the other hand, in the last two to three years, the formation of international alliances of leading air-carriers (their groups, unions, partnerships, associations, or consortiums) was in full swing. With the ongoing liberalization of global business, the emergence of multilateral partnerships of different kind is regarded as a growing trend in the airline industry.

"You can't buy a foreign airline because of traffic rights," such is the opinion of Karl-Friedrich Rausch, a top executive at Lufthansa German Airlines, the world's second biggest international air-carrier. "It is no DaimlerChrysler merger possible in the airline industry for the time being. It will be there in five to 10 to 15 years."³⁹

This statement has been made in October 1999, during the festivities celebrating the emergence of Japan's second largest airline, All Nippon Airways (ANA), as a new member of Star Alliance, the first and so far the

most prominent consortium of international carriers. Star Alliance, led by United Airlines (one of the two biggest U.S. carriers) and Lufthansa, also includes Air Canada, Air New Zealand, Ansett Australia Airlines, Scandinavian Airlines System (SAS), British Midland, Thai Airways International and Varig International Airlines (of Brazil).

“Participating in a global alliance is inevitable for an airline like us to survive,” said Kazuhisa Shin, an ANA executive vice president in charge of marketing and alliances. “Otherwise, our company would be left behind other airlines that are expanding flight routes worldwide.”

For about two years now, Star Alliance is regarded as the leader in building a global network. With ANA participation and the scheduled joining of Singapore Airlines, it could boast 760 destinations in 112 countries spanning five continents, and has filled up a kind of hole in its worldwide coverage by signing up two major Asian carriers. Also, Mexican Airlines and Austrian Aviation Group (Austrian Airlines, Lauda Air and Tyrolean Airways) were considering their Star Alliance membership.⁴⁰

Another large international alliance, in modern Internet style called ‘oneworld’, is also expanding rapidly from its original group including American Airlines (main rival of United Airlines), British Airways (BA), Canadian Airlines, Cathay Pacific (of Hong Kong) and Qantas (of Australia). Now, it also embraces LanChile, Iberia (of Spain), Finnair and Irish state company Aer Lingus. By the end of 1999, oneworld’s members together carried a total of over 200 million passengers a year, with fleets totaling 1,783 aircraft. The group flew to 682 destinations in 143 countries.⁴¹

The third international alliance, which is sometimes called Blue Wings or simply Wings, has also been established with an aim at global air-transport market. It embraces European carriers KLM Royal Dutch Airlines and Alitalia, American companies Northwest and Continental

through-check-in services with fellow alliance members, etc.

“Multilateral alliances bring more advantages than a bilateral contract with another airline,” aforementioned Lufthansa’s Rausch believes.⁴⁵ According to experts, “the most important rationale for establishing an alliance is that it allows an airline to increase the geographic size of its network without sizable investment.”⁴⁶

With the four main groups firmly in control of the international air market, the focus of alliance moves is now expected to shift into three new areas: a) building global brands into well-recognized stand-alone brands, b) slashing costs through closer cooperation among group members, and c) filling out the grouping with smaller regional carriers in some of the more attractive, rapidly growing parts of the world such as India and Latin America. An ideal global brand would provide seamless check-ins and transfers, reciprocal frequent flyer programs, lounge access and upgrade privileges. In this ideal environment, customer expectations would be met uniformly across the brand. To offer a global product, however, the various facilities and computer systems need to be compatible, and the people involved in operations must all be adequately trained. Let us notice that more than half of the Star Alliance annual budget is said to be directed toward developing information technology.

Cost savings could be achieved through sharing terminal facilities and check-in counters, joint reservation systems, especially of big international airports (the so-called hubs), as well as through consolidated administrative offices, joint purchasing, joint aircraft leasing contracts, combining cargo operations and consolidating distribution systems, etc. However, “until firm commitments can be made in the form of long-term contracts, the cost synergies may not materialize.”⁴⁷

As early as five years ago, Asian airlines seemed unenthusiastic about joining air industry alliances. For years, high load factors and contin-

ued robust demand led Asian carriers to shy away from an idea of becoming part of a global network. They had seen no reason to open up their profitable market to others, and they were unwilling to give up so much just for a meager offer from the group to share passengers.

However, East Asian economy ground to halt in mid-1997, and demand for air travel in the market dried up, forcing them to make an about face on alliance partnerships. The demand shock during a two-year long “Asian crisis” prodded the local airlines to carefully assess the advantages of alliances for the first time.

So, recently the mood has changed. Since September 1998, five East Asian and other Western Pacific airlines have entered the growing global alliances. Cathay Pacific and Qantas have become the second group of regional carriers to join up (as part of oneworld grouping), following Thai Airways’ participation in Star Alliance. Then, Singapore Airlines, Ansett and Air New Zealand first launched a three-way code-sharing service, and later met the decision to join Star Alliance as well.⁴⁸

This left only a handful of major Asia-Pacific carriers outside any alliance. However, for all local companies alliance consideration are likely to remain a central management occupation for the next year or two. On the other hand, with the two main global alliances, Star and oneworld, both having footholds in East Asia, the race is on for the Delta-Air France partnership and the Northwest-KLM-Alitalia group to complete their global efforts by securing Asian partners.

However, the third of aforementioned groups is very likely to acquire Asia-Pacific partners soon. KLM and Northwest already have tight cooperation with Virgin Group, which includes low-cost carriers Virgin Express, servicing European routes, and Virgin Atlantic, on transatlantic direction. On the eve of 2000, the owner of Virgin Group, British tycoon Richard Branson, was said to envisage establishing a new air company in

Australia with an aim to expand the group's practice of discount flights to the area of Oceania thus taking away passengers from other two Australian carriers, Ansett and Qantas, as well as expanding the code-sharing flights arrangements with Malaysian Air System (MAS). It is expected that these region-oriented companies gravitating to Virgin Group would be drawn closer to Northwest-KLM-Alitalia consortium as well, and will join it sooner or later.⁴⁹

Soon, continental China's commercial aviation market will be of much interest for competing groupings. So far, the three major local companies engaged in international air travel, Air China, China Eastern and China Southern, have all established links with foreign airlines in the form of code-sharing.

For example, American Airlines has a code-sharing agreement with China Eastern, which also operates code-sharing flights with Qantas, between Australia and Shanghai (both belong to the oneworld group).

Although it was Delta that first signed up with China Southern for code-sharing on some routes, later this Chinese carrier announced a code-sharing tieup with United Airlines, and the question therefore remains unanswered as to which alliance China Southern will eventually join.

Beijing-based Air China, on the other hand, has code-sharing arrangements with Northwest, and it is therefore likely to align with the Northwest-KLM partnership.⁵⁰

The list of air companies that, so far, haven't established any steady ties with the existing groupings includes such big and virtually omnipresent carriers as Aeroflot Russian International Airlines (Aeroflot) and Japan Airlines (JAL).

As for Aeroflot, its indecisive position results, at least partly, from still not quite clear legal status of the now private heirs to the former state monopoly, as well as from lack of flexibility and other survivals of those

recent times when the Soviet Union wished to feel self-sufficient and independent in virtually all spheres thus preferring autarchy to normal international cooperation.

As for JAL, Japan's most famous and biggest airline and the fifth-largest in the world, the status of a "lonely wolf" doesn't prevent it from cooperation with more than ten other international carriers, including British Airways, American Airlines, Canadian Airlines, Qantas and Cathay Pacific Airways (from the oneworld alliance), in such areas as frequent flyer programs and code-sharing flights.

However, JAL's "quintessentially Asian culture" and high reputation for "understanding and catering to the Japanese air passengers" makes it reluctant to join forces with foreign partners as a full member of a steady alliance. Another major issue for participating in an international group is language. Although JAL has been operating internationally for many years, its functional language is still Japanese. So, JAL's president Isao Kaneko believes that his company isn't ready yet to fully switch to English in its operational computer system.⁵¹

It is worthwhile to notice that JAL also is "one of the few remaining exclusive operators of Boeing aircraft among leading airlines."⁵² In 2000, Airbus achieved a major breakthrough in persuading Qantas to buy both its new A380 super-jumbo and mid-capacity A330 airliner, ending Australian carrier's 40-year tradition of ordering exclusively Boeing airplanes.

Recently, in April 2001, Airbus has renewed talks with Japan Airlines for the sale of its pioneering A380, which will be the largest twin-deck 555-sit civil aircraft ever built and is due to enter service, first with Singapore Airlines, in early 2006.

In contrast to JAL, aforementioned All Nippon Airways (ANA) regards its membership in Star Alliance as a prerequisite of success in sharp competition, both home and abroad, with JAL and Japan Air System

(JAS).⁵³ Cooperation with partners from all over the world helps enhancing the geographical scope of ANA international service, and also keeping a large enough niche on the domestic market where a number of low-cost carriers appeared lately (like Skymark as a most vivid example). As reported, ANA expected to post an increase of around 7.5 billion yen in operating revenues in the fiscal year ending March 2001 as a result of taking part in the alliance it joined in October 1999.⁵⁴

Some examples of M&As. All this, however, doesn't mean that there are no "classic" mergers and acquisitions among world's air-carriers at all. Still, they are not many in number and are played out mostly in national (or sub-regional) framework, in such relatively young industrial countries as Canada, Australia and New Zealand (although usually they touch upon interests of the world's major airlines as well).

For example, in 1999, big combat for the sunny place in international aviation business between Canada's two leading passenger carriers, Air Canada and Canadian Airlines, draw much attention. Notably, it was also a combat of United Airlines (the world's biggest in scope), in alliance with Lufthansa (the second-largest in the field), against American Airlines (the second-largest in the U.S.). Or, we can also say, it was one of the first showdowns between Star Alliance and oneworld.

First, Toronto-based investment firm Onex Corp. tried to execute a "hostile takeover" of Air Canada (through the acquisition of 57 percent stake in it at a very high price), with an aim of merging it with Canadian Airlines afterwards. As a result, Air Canada should have been put under control of AMR Corp., the holder of a big capital stake in American Airlines, teamed up with the second eventual player in aforementioned domestic merger - Canadian Airlines.⁵⁵ However, in a countermove, UAL Corp., the parent of United Airlines (UNA), together with Lufthansa,

announced their intention to buy 35 percent stake in Air Canada that already was their partner as a member in Star Alliance.⁵⁶

The first merger scheme foresaw the transition of Air Canada from Star Alliance to oneworld (which, by the way, would entail big penalties for the breach of agreement), while the second was aimed at enhancing existing ties between UNA and Lufthansa, on the one side, and the biggest Canadian air-carrier, on the other side, thus further strengthening the oneworld grouping.⁵⁷

In a month, a provincial court in Canada (Quebec Superior Court) ruled that Onex Corp.'s bid to take over Air Canada was illegal.⁵⁸ At the same time, Air Canada made a bid to gain control over Canadian Airlines and to operate it as a wholly owned subsidiary (under the name Canadian Airlines International) as a part of Star Alliance thus proceeding with the restructuring of Canada's airline industry. To realize this bid, Air Canada reached an agreement with American Airlines which controlled 25 percent of Canadian Airlines. American's OK was considered essential for the takeover to go ahead.⁵⁹ The Canadian government and the nation's antitrust agency (Competition Bureau) both cleared the way for the transaction which "provides the best solution possible for consumers, under the circumstances."⁶⁰

Air Canada's senior partner in Star Alliance, Germany's Lufthansa, declared such an end to the controversy "a triumph of reason, equally for clients."⁶¹ Notably, practically at the same time, Lufthansa bought 20 percent stake in British Midland from SAS which held controlling 40 percent. As reported, it would enable British Midland, which might be renamed "Blue Bird", to join Star Alliance. In its turn, Star Alliance has long sought to have British Midland as partner because it holds the rights to many so-called landing and take-off "slots" at Heathrow Airport near London.

In 2000, interesting events also played out in the area of Oceania

(particularly, in Australia and New Zealand). Air New Zealand (former Tasman Empire Airways, active since 1940) acquired 100 percent of Ansett Australia Airlines, established in 1931 and now Australia's second air-carrier. After it was OK'd by Australian authorities, the transaction created the 20th largest airline in the world with assets of \$5.4 billion and a payroll of 24,000.⁶²

In a countermove, the largest Australian airline, Qantas, decided to acquire a 17 percent stake in Air New Zealand (local law allows a foreign carrier to own only up to 25 percent of Air NZ capital). The aim was to create "a major airline group in this region of the world with a size and capital base to compete aggressively in a rapidly changing international market," as Qantas chief executive James Strong stated to the press.⁶³ As an additional effect of this maneuver, Qantas expected to block a "heavyweight alliance" which was nearing fruition between Singapore Airlines and Air New Zealand. It did not succeed, however, in achieving the latter goal, because in June 2001 Singapore Airlines announced its intention to "significantly" raise its stake in Air NZ and thus "to thwart Qantas' hopes to buy a major stake in the New Zealand airline."⁶⁴

Lately, striving for bigger business scale through M&A deals becomes typical for major U.S. and European air-carriers as well. In mid-2000, British Airways (actual leader of the oneworld alliance) and KLM announced that they were discussing a possible merger, signaling their intention of creating a European challenger worthy of any U.S. carriers that may emerge from the latest wave of airline consolidation. Actually, it was a BA bid for a takeover of KLM (already second after a 1992 failed attempt) which was rumored for a long time, especially after merger plans between KLM and Alitalia collapsed earlier that same year. Simultaneously, AMR Corp., parent of American Airline (which is also an influential member of oneworld grouping) made a surprise bid for KLM's

own alliance partner, U.S.-based Northwest Airlines. Should both these bids succeed, a tight cooperation between the second and the third of aforementioned international alliances would emerge leading to their eventual merging into one (most probably under the 'oneworld' name).⁶⁵

Further information about events and consolidation plans involving European and U.S. companies became even more intricate and contradictory in judgement. Thus, in autumn 2000, a break in negotiations between British Airways and KLM has been announced motivated by the lack of understanding as to how exactly the transition of control to BA should be arranged.⁶⁶ At the same time, American Airlines and Northwest went on with negotiations concerning their consolidation, just in case the deal between BA and KLM would still be brought to a successful end, while Delta made preparative moves for acquiring control over Continental Airlines, another member of KLM-Northwest group.⁶⁷ In France, three relatively small companies, AOM, Air Liberte and Air Littoral, announced their merger with an aim of establishing a second national aviation group capable to compete with Air France.⁶⁸

However, in early 2001, public attention switched back in major way to the biggest U.S. players, United Airlines and American Airlines. In January, a federal bankruptcy court judge approved American Airlines' plan to acquire ailing Trans World Airlines (TWA), the nation's longest flying air-carrier (since 1930), in a transaction arranged as an auction deal.⁶⁹

This major acquisition, which went through in April, allowed American, the No. 2 carrier before the deal, to swap positions with No. 1, i.e., United Airlines, in terms of revenue passenger miles (135.8 billion in 1999 as against 125.1 billion). It will add the third hub (at St. Louis) to American's two own hubs (at Chicago and Dallas). The combined company would offer travel to more than 300 cities worldwide on more than 900 aircraft.⁷⁰

It is worthwhile to notice that, simultaneously, American reached an agreement to buy 49 percent of DC Air, the new airline being created by Black Entertainment Television founder, Robert Johnson.⁷¹

However, it looks like the American's bid was only the beginning of major events in the U.S. civil aviation market which, most obviously, is going through a new round of realignment moves. Let us consider that, at the time of the American-TWA deal, United Airlines was waiting for approval of its own \$4.3 billion controversial bid for US Airways, which was unveiled in mid-2000 and provoked loud protests both in government and public circles.⁷² Should it go through, the situation would reverse once more putting United back into No. 1 slot on the U.S. air market.

What is peculiar in this last deal, is the intention of United to sell 20 percent of US Airways' assets to no one else but its arch-rival, American, for \$1.2 billion. Moreover, the two giants were negotiating a deal to jointly operate the US Airways Shuttle on routes from Washington to New York and Boston. Professionals and some analysts regard this as "a conspiracy to split the U.S. market between them." Thus, according to Continental Airlines chairman Gordon Bethune, "the deal would allow the two largest airlines to snuff U.S. competition illegally and could lead to global dominance." The chief of the fifth-largest U.S. air-carrier even urged the federal government "to take away routes from his rivals if the deal is approved."⁷³

The two megadeals (American Airlines absorbing TWA, and United Airlines buying US Airways) would give the "competing/cooperating" leaders control over half of U.S. air travel market. No wonder, they run into swift opposition from consumer advocates and some politicians, who warned that passengers will face fewer choices, worse service and higher fares.

"It is hard to imagine how this can be good for competition or for consumers," commented Senators Mike DeWine and Herb Kohl, both serv-

ing at a Senate subcommittee on business competition.⁷⁴ So, most probably, much maneuvering will be necessary for the two rivals to succeed in pushing through their bold merger schemes.

In conclusion, it can be stated that the corporate realignment in the international air travel market becomes one of its significant permanent features, because competition is growing, and so does the business volume of major carriers. Both these trends, in their turn, threaten to bring about lower standards of service and accepted safety standards.

According to some estimates, by 2015, the number of airliners flying is expected to grow from the current 14,000 to approximately 24,000, while the number of airline passengers will go up from 1.5 billion to more than 3 billion annually. Unfortunately, the accident rate would rise as well, reaching, by the same date, “the stupefying level of one major jet accident per week.”⁷⁵

“Is it possible to prevent the 52-accident-per-year future?” asks the author of several books on aviation, Walter J. Boyne, and offers his answer: “Perhaps, but only if there is immediate concerted international action at an unprecedented level of spending. This is one instance where surrender of sovereignty might make sense if an international body could be created to ensure conformance to uniformly high international standards of air-traffic control.”⁷⁶

International alliances of major air-carriers should contribute to the perfection both of air transport facilities and their use to secure passengers high-quality services and maximum of flight safety. It seems hardly feasible that such important links in global air network as Japan Airlines or Russia’s Aeroflot can remain staying outside such groupings for long.

Some Other Examples of Intra-Industry Consolidation through M&A

Nowadays, mergers and acquisitions take place in old industries and in new ones, in manufacturing and in services, in banking sphere and in retail trade. And everywhere M&A have specific features springing from peculiarities and, so to speak, “life cycle” of individual industries or economic sectors.

Correspondingly, M&A in various sectors are often dictated by different motives, executed by different means and aiming at not necessarily same concrete goals. Also, the degree of inter-industry consolidation (centralization of capital) achieved in particular economic sectors can vary dramatically, as well as their degree of internationalization. And, vice versa, spheres of business looking very different and far away from each other can display considerable sameness, or likeness, of their motives and goals.

For instance, in economic sectors with such different profiles as pharmaceutical industry and banking business, M&A mainly pursue analogous aims dictated by the necessity of further organizational consolidation of still rather dispersed national (regional) forces which are facing rapidly growing global competition (or, as a more concrete example, challenge from much bigger American corporations).

Leading U.S., European and Japanese companies are striving for enhanced business size, as well as for better coordination and tighter cooperation with their national (regional) partners. It is necessary, first of all, for accumulating financial, material and human resources and their focusing on main directions of R&D and the most promising production sectors. Success in this field, in its turn, may contribute in a major way to enhancing both the overall positions of cooperating companies in global competition and, particularly, their competitiveness in national, regional and global markets.

There is considerable specificity of M&A in sectors which we haven't dwelt upon yet, including traditional (basic) industries and services. Obviously, they deserve some attention here as well.

Pharmaceuticals. Levels of concentration and centralization of capital in this heterogeneous and science-intensive industry don't seem to be particularly high, even in the United States and Britain where drugmaking is especially strongly developed.

"The worldwide pharmaceutical industry remains relatively unconcentrated," noted, for example, Stephen Houck, an antitrust specialist with Reboul, Mac-Murray, Hewitt, Maynard & Kristol in New York, while commenting on a major merger deal (between Pfizer and Warner-Lambert Co.).⁷⁷

Yet, there are large companies on both sides of the Atlantic developing and manufacturing modern prescription drugs, with worldwide reputation and secure presence on global markets. Judging by the events of the last two to three years, some of them dream of finding a suitable partner, better a home-based one, for joining forces with him, better under own control, and thus taking a leading position in the global pharmaceutical industry. In this respect, there are similarities in goals pursued through M&A by the biggest world drugmakers and the leaders of such highly concentrated industry as the automaking.

The first claim for the No. 1 spot has been made as early as in 1998, when European giants Hoechst and Rhone-Poulenc merged their pharmaceutical and agricultural operations. The new company which received the beautiful name Aventis is based in Strasbourg, now in eastern France, which for a century served as a bone of contention between Germans and French. The move was regarded as a step toward a full merger between the two companies, which was expected to be completed within three

years, according to Rhone-Poulenc Chairman Jean-Rene Fourtou.⁷⁸ Aventis is believed to be able competing with the top drug companies in terms of revenue, such as Merck of the U.S., Britain's Glaxo Welsome and Switzerland's Novartis which, however, were still ahead when it comes to profitability and research productivity.

Maybe as a countermove, less than a year later, American Home Products (AHP) and Warner-Lambert announced that they were negotiating their own merger and formation of a company with \$145 billion in assets. The press commented on this M&A project in a positive way noting that the two New Jersey-based companies complemented one another and that the merger offered opportunities for substantial cost-cutting.⁷⁹ Walter-Lambert was described as an attractive takeover target (the deal had to be a merger in form only) because it prospered primarily on the sales of Lipitor, which has become the best selling cholesterol-lowering drug in the United States. So, it was not by chance that at least two other rivals, SmithKline Beecham and Monsanto, have been trying (unsuccessfully) to take over Walter-Lambert before American Home Products made its bid.

However, this latest bid turned out to be a failed one as well. Literally overnight, another major U.S. group, Pfizer Inc., made an all-stock \$82.4 billion bid for Walter-Lambert that was called "the largest unsolicited bid ever", and threw AHP with its \$72 billion bid, as well as Walter-Lambert, in disarray.

"This combination would create the strongest, most dynamic pharmaceutical company in the world," said William Steer, chairman and chief executive of Pfizer.⁸⁰ As a matter of fact, the emerging company would have a market capitalization of more than \$200 billion, which would make it easily the largest in the world's pharmaceutical industry. Also, it was stressed that a merger with Pfizer secured more synergy than the deal

offered by AHP.

However, the situation represented a conflict, not to say a scandal. Time went by while other rivals disclosed their own plans.

Two weeks later, Monsanto Co. offered Pharmacia and Upjohn Inc. a merger with an aim of creating “the world’s 11th largest drug company with a cabinet of top-selling medicines to treat ailments from arthritis to glaucoma” or, according to another source, “from arthritis pain reliever to smoking-cessation gum.”⁸¹

“Diversifying one’s risks is very important in pharmaceuticals,” said Fred Hassan, CEO of Pharmacia and Upjohn. Also, in connection with this deal, it was noted that “the frenetic search for partners in the pharmaceutical industry is being driven by the need to finance research for blockbuster drugs, while facing pressure from political and consumer groups to keep prescription cost down.”⁸²

Notably, the previous attempts by Monsanto to find a merger partner didn’t bring success which, most probably, could be explained by the fact that Monsanto’s agricultural-chemical business, engaged in making genetically altered seeds and weed killers, was facing consumer backlash, particularly in Europe. Concerns about potential health risks from genetically modified (GM) foods had already caused many manufacturers to rethink ingredients.

One more month later, British firms Glaxo Welsome and SmithKline Beecham announced “a merger deal to create the world's biggest pharmaceutical group.”⁸³ It was expected that Glaxo’s all-stock offer would create a split in the capital of the new company 60:40 in its favor, which would effectively manifest the end of SmithKline Beecham’s existence as an independent producer. Moreover, the new group Glaxo SmithKline was expected to grab the No. 1 position, with a world market niche of 7.5 percent, ahead of a combined Pfizer and Warner-Lambert share of 6.0 percent.

It all actually ended this way. Both mergers, Glaxo and SmithKline, as well as Pfizer and Walter-Lambert, went through successfully. To achieve this, Pfizer had to raise its offer for Warner-Lambert first to \$84 billion, and later even to \$93 billion, and also to pay American Home Products \$1.8 billion, “the largest ever breakup fee.”⁸⁴

Thus, Glaxo SmithKline emerged in the first position in the world’s pharmaceuticals (and as Britain’s third-largest company), while Pfizer, which included Warner-Lambert as its production division, took the first slot in North America and the second in the world. However, rapidly growing Pfizer expected to reach in 2000 a combined annual revenue of \$28 billion, which would have brought it ahead of somehow slower Glaxo SmithKline, while its R&D budget would amount to \$4.7 billion (about 20 percent of Pfizer’s global sales).⁸⁵

In fact, Pfizer’s revenues in 2000 have grown by 20 percent, and it actually “became the world’s No. 1 company in prescription-drug sales,” mostly thanks to aforementioned Lipitor and also to Viagra (the world’s leading treatment for erectile dysfunction) and Celebrex (a leading drug for arthritis).⁸⁶ Pfizer is the only pharmaceutical group to have seven medicines reaping annual sales of \$ 1 billion or higher.

After merger with Warner-Lambert, Pfizer consolidated its positions also in Europe, where its share, for example in Spain, has grown from 3.7 percent to 5.5 percent. It was also expected that joining hands with Walter-Lambert which has an extended network of pharmacies, would help Pfizer “generate synergies” internationally, particularly in Japan, the world’s second-largest drug market, where Pfizer already cooperated with Yamanouchi Pharmaceutical Co. for sale of Lipitor and was looking for at least one more sales channel.⁸⁷

As for over-the-counter drug sales growth, here M&A can also contribute in a major way. For example, in early 2000, Japanese branch of

German pharmaceutical giant Boehringer Ingelheim GmbH has bought up 35.9 percent of shares of SSP Co., a well-known local drugmaker, second in Japan in over-the-counter turnover. The aim was to strengthen German firm's position in Japanese market of patented medical products on the eve of its further liberalization.⁸⁸

Facing growing foreign competition on Japan's drug market, national firms consider new steps toward consolidation of funds to finance R&D, as well as toward tighter cooperation in expanding distribution networks. Thus, it was announced that Welfide Corp., a major Osaka-based drugmaker formerly known under the name Yoshitomi Pharmaceuticals Industries, successfully concluded negotiations to merge with Mitsubishi-Tokyo Pharmaceuticals Inc., member of the mighty Mitsubishi group.⁸⁹ This move gives partners a chance to create the nation's seventh-largest pharmaceutical firm. According to analysts, the merger "is aimed at improving their ability to compete effectively against their European and U.S. counterparts, which have advanced into the Japanese pharmaceutical market, on the strength of huge investments in drug development."⁹⁰

Also, Dai-Ichi Pharmaceutical Co., Fujitsu Ltd., and biotechnology startup Celestar Lexico-Sciences Inc. (CLS), known for its gene functioning prediction system, agreed to launch a five-year joint study for developing drugs using genetic data. It is a first time that a Japanese drugmaker and a computer manufacturer have tied up in drug development. In particular, Fujitsu will render support to the Dai-Ichi Pharmaceuticals-CLS joint project by providing relative patents.⁹¹ In another rather unusual partnership, Fujisawa Pharmaceutical Co. has formed a joint firm with a subsidiary of major leasing company Orix Corp., which deals with investments in pharmaceutical research ventures.⁹²

Lately, there are signs of growing activity of Japan's drugmakers abroad, and not necessarily the biggest ones. For example, already in 2001,

Nihon Nosan Kogyo K.K. announced that it has agreed to tieup with PPL Therapeutics PLC of Britain on modern genetic technology to include joint development of drugs. Also, Kyorin Pharmaceutical Co. unveiled its intention to launch a wholly owned U.S. unit to sell its products in local markets and import U.S. medicines to Japan.⁹³

As a general observation, we may state that the corporate realignment in the world's pharmaceutical industry is by far not concluded. For example, after recent setback in its merger plans, American Home Products was said to be looking for a buyer of its agricultural division and thus engaged in negotiations simultaneously with two U.S. giants, Dow Chemicals and DuPont, and also with German leaders, Bayer and BASF.⁹⁴ As for AHP's pharmaceutical division, there are signs that it might be bought by Swiss drugmaker Novartis. Also, one of U.S. leaders, Merck and Co., has not made any moves in megamerger race yet.

As for Novartis, in spring 2001 it has made "a long-term financial investment, which is also strategic in nature" by buying 20 percent of the voting shares of Roche, another Swiss pharmaceutical firm, the world's No. 9 in 2000. Should this transaction lead to a full merger, a new group would emerge eyeing the leadership in the industry with more than \$20 billion in sales, a global market share of about 7 percent and a stock market capitalization of \$179 billion.⁹⁵

Banking Business. In this vital field, the corporate consolidation also proceeds mainly along national lines, and only in rare cases within certain regions of global economy. The world remains simply too big to be effectively dominated by several giant national (regional) banks. As for "money business" itself, it is too delicate an affair directly affecting interests of peoples and nations to be taken lightly by giving effective control over it to "alien" players.

History knows, however, cases when national financial companies made claims to create financial groups of global dimensions and significance. In 1998, U.S. giant Citicorp, parent of Citibank, the nation's No. 2, best known for its ramified network of local branches worldwide, merged with Travelers Group Inc., which used a tremendous toolkit of various financial products and instruments through its broad U.S. network of insurance and stock-brokerage offices under the Travelers and Salomon Smith Barney names. Notwithstanding its unusual size (\$83 billion, on that moment the biggest merger ever) and quite real danger it posed for the freedom of competition on the U.S. financial markets, the federal controlling organs OK'd this megadeal. Thus, Citigroup Inc. emerged, representing the biggest U.S. bank holding, with 100 million customers in 100 countries, with 160,000 employees selling a full range of financial products and services.⁹⁶

In U.S. banking, like in U.S. communications and media business, mergers are typically moved by economy-of-scale considerations. "In services industries such as banking, communications and broadcasting, for instance, companies are already merging or teaming up to seek economies of scale," wrote Takamitsu Sawa, professor of economics at Kyoto University, in an article aptly titled "No brakes on merger mania".⁹⁷ Partly it may be explained by the fact that U.S. banking system includes much more small and midsize banks than those of Europe, Japan or neighboring Canada, that many U.S. cities have redundant networks of banks' branches, that duplication of banking operations is commonplace, etc. No wonder, in the U.S. the number of banking M&A was high as early as in 1980s, with an average of 355 transactions annually,⁹⁸ while during the 1990s both the number and the scale of M&A showed steady growth.

By mid-1999, barely a year after Congress scrapped the Depression-era law that splits banks into commercial and investment banking enter-

prises, U.S. financial firms scrambled to buy rivals to create a handful of megabanks with an enormous range of financial powers. Namely, Chase Manhattan Corp. and J.P. Morgan & Co. have agreed to a \$34 billion merger that would combine two of the most storied names in banking business into one, J.P. Morgan Chase, and underscore a significant reshaping of the U.S. financial system. It was arranged as a stock swap between the third- and fifth-largest banking companies creating a “financial behemoth” with total assets of \$662 billion, about equal to Bank of America Corp. “In many ways,” wrote a Washington Post author, “the merger signals Wall Street’s return to the giant banking enterprises of a century ago, when men such as John Pierpont Morgan swaggered across the financial landscape.”⁹⁹ Chase, once the Rockefeller Bank, is strong in commercial loans but has lagged in investment banking. Morgan has spent the past decade building a respected investment banking enterprise.

And in autumn 2000, it was already newborn financial services powerhouse Citigroup that paid \$31.1 billion (in its own stock) for the biggest publicly traded U.S. company in the financial sphere, Associates First Capital Corp., a famous lender and one of the leaders in insurance and brokerage services whose business unit in Japan occupied the fifth position among consumer finance companies represented on local market.¹⁰⁰

However, from all aforementioned U.S. megadeals, probably, only the merger of Citicorp and Travelers Group in 1998 created a financial institution really global in scope and character. It was exactly the formation of Citigroup that really shattered the financial world, pushing the most ambitious of European and Japanese rivals towards mergers and acquisitions not only at home or in their “native” regions but also cross-continentally.

For example, half a year later, Deutsche Bank, with the assets biggest in Europe and the world, decided to strengthen its presence in the

U.S. by acquiring control over the seventh-largest local banking holding, Bankers Trust Corp., for \$9.7 billion, a record sum among foreign acquisitions in the U.S. on that date.¹⁰¹

Recent history also knows some mutual attempts by Japanese banks to penetrate the financial sphere of the United States, and by U.S. banks to get a foothold in a very tightly knit financial system of Japan, although generally those attempts can be regarded as rather modest ones.

For instance, as early as in 1990, when “Japanese miracle” wasn’t yet definitely exhausted, Bank of Tokyo has bought from Bank of New England its leasing division for \$592.5 million, the biggest foreign acquisition in the U.S. on that moment.¹⁰²

And a reverse example: in 1998, soon after a successful merger with Citicorp, mighty Travelers Group offered to take under its wing the third-largest Japanese brokerage firm, Nikko Securities Co., by acquiring 25 percent of its shares.¹⁰³ For U.S. giant, this transaction offered an opportunity to make a first step into Japan’s financial market before its deregulation has actually begun. For Nikko, this partnership opened a way to cooperation with Travelers Group in such new field as issue and trade in derivatives.

Cooperation developed successfully, and by spring 2001 new steps have been taken to strengthen ties between them by transferring a 50 percent stake in Nikko’s fully owned trust banking subsidiary (Nikko Trust & Banking Corp.) to Cititrust & Banking Corp. belonging to Citigroup.¹⁰⁴

However, like in North America, both in Europe and Japan the wave of megamergers rolled, first of all, through national financial systems. Thus, after successful acquisition of Bankers Trust, Deutsche Bank got busy preparing a new giant transaction, that time at home. The idea was to gain control over its main local rival, Dresdner Bank, bringing cumulative assets under control of Deutsche Bank to \$1.2 trillion. A sensation was in

the making, and financial press worldwide has been discussing different aspects and eventual consequences of this “elephant marriage” for several months.¹⁰⁵ In the very end, however, this historic megadeal didn’t materialize (in the next article devoted to affairs in European region we shall try to explain why).

In their turn, having successfully avoided actual takeover by Deutsche Bank, the bosses of Dresdner Bank, Germany’s third-biggest, made it clear that their ambitions reached out far beyond national border, and even beyond EU area as well. Just like main German rival and “role model”, Deutsche Bank, did a year before, Dresdner Bank decided to expand its foothold in the U.S. by bidding, in autumn 1999, to purchase for \$1.4 billion local investment bank Wasserstein Perella. As a result of this transaction, Dresdner combined Wasserstein with its own investment division, Dresdner Kleinwort Benson, to create the world’s sixth-largest M&A adviser. The new company received the name Dresdner Kleinwort Wasserstein.¹⁰⁶

In Japan, in 1999 and 2000, three banking megamergers have been announced one after another, a development that also may be interpreted in terms of a new global wave of M&A as well as of growing competition on national financial market as processes of its reforming began to proceed (according to the so-called “Big Bang” program¹⁰⁷ adopted in 1997 and foreseeing a series of steps, mostly in three years, from 1999 to 2001, toward a gradual deregulation of financial and fiscal operations “encouraging greater mutual entry and less red tape for financial institutions” and aiming at the creation of a “free, fair and global” financial environment).

First, Dai-Ichi Kangyo Bank, Fuji Bank and the Industrial bank of Japan announced that they would set up a joint holding company (by the way, a move made possible only by the implementation of the “Big Bang” provisions) in autumn 2000 and fully integrate their operations from April

2002. As a result, giant banking entity emerged, Mizuho Financial Group, with assets of 134.4 trillion yen, i.e., more than those of somehow elder group, Bank of Tokyo-Mitsubishi (69 trillion yen), and even in excess of colossal assets of Deutsche bank (an equivalent of 99 trillion yen).¹⁰⁸

So, the decisive step has been taken. However, the young financial titan and its consolidating center, Mizuho Holdings Inc., “faces a long road ahead before it can overtake its foreign rivals,” according to experts of the Japan Times.¹⁰⁹ In the second phase of transition, to begin in spring 2002, the banks will be regrouped into several business units, which will all include Mizuho in their names. By fiscal 2005, the partners will close 170 domestic branches, and also cut about 60 overlapping overseas subsidiaries and reduce their combined workforce by 7,000.¹¹⁰

Then, Sumitomo Bank (representing the group of the same name) and Sakura Bank (main financial institution of Mitsui group) agreed to merge from April 2001 bringing their consolidated assets on approximately the same level with Deutsche Bank.¹¹¹ In future, according to some estimates, this new group, Sumitomo Mitsui Banking Corp., with \$820 billion of assets, could become the world’s second-largest, ahead of such foreign rivals as Deutsche Bank (\$735 billion), UBS Group of Switzerland (\$687 billion) and Citigroup (\$669 billion).¹¹² In one of the following articles we shall discuss the future of Japan’s financial/industrial groups of keiretsu and zaibatsu types which, as of lately, also display a tendency to cross each other’s borders and eventually even to merge.

At last, in March 2000, Sanwa Bank, Tokai Bank and Asahi Bank reached a basic agreement to come under a joint holding company by April 2001, creating the world’s third-largest banking group (following the two other financial world leaders of Japanese origin).¹¹³ Although later Asahi Bank broke the arrangement and abandoned its plan to participate in the group, the two remaining partners went ahead, and by October 2000 they

also found a new partner, Toyo Trust & Banking Co.

So, from the beginning of the same 2001 fiscal year, the UFJ Group has become a reality (UFJ stands for “United Financial of Japan”). It is headquartered in Osaka and headed by UFJ Holdings Inc. And one more year later operations of the three banks (Sanwa, Tokai and Toyo) must be fully integrated.¹¹⁴

Since April 2001, also the eldest of Japan’s modern banking groups headed by the newly-founded holding, Mitsubishi Tokyo Financial Group Inc., and including Bank of Tokyo-Mitsubishi, Mitsubishi Trust & Banking Co. and Nippon Trust Bank reopened its operations in a reshaped form.

Thus, since fiscal 2001, the so-called “Big Four” appeared in Japan’s banking and financial services sector. However, this hardly manifests an end of the current wave of megamergers. Moreover, analysts believe “the appearance of the Big Four will stir further corporate realignments in the banking industry.”¹¹⁵

It is also worthwhile to stress that the regrouping efforts among leading Japanese banks are accompanied by similar developments in insurance industry. Since April 2001, also three new big names in the so-called “nonlife” insurance sector appeared: Nipponkoa Insurance Co., Aioi Insurance Co. and Nissay Dowa General Insurance Co., each of them resulting from mergers between two formerly independent companies. Obviously, they will try to partly take away business from the sectoral leaders, Tokio Marine & Fire Insurance Co. and, so far unnamed, united nonlife insurer of Mitsui and Sumitomo groups. The latter will start joint operations by March 2002, after a planned merger between Mitsui Marine & Fire Insurance Co. and Sumitomo Marine & Fire Insurance Co. will be completed.¹¹⁶

Probably, recent M&A activity among the leaders of Japan’s banking sphere has been stimulated, at least in part, by critical notions contained

in the annual report of the International Monetary Fund released in September 1999. In it, IMF experts stated that “ongoing restructuring by major Japanese banks is not sufficient to help shore up their financial standing.”¹¹⁷ To overcome deep structural deficiencies of Japan’s financial sector, which became evident in the “post-bubble” decade, and to be able to compete in a deregulated and more open environment, national companies must be looking for both new “economies of scale” and “economies of scope”, first of all by increasing their size and diversity of operations through mergers and acquisitions.¹¹⁸

“Japan’s banking system can still be described as “fragile” or even “precarious” despite nearly a decade of supposed reforms and a wave of industry realignment,” according to Benn Steil, New York-based senior fellow of the Council of Foreign Relations.¹¹⁹ Experts point to “insufficient capital base” of Japanese banks in real terms, because official figures are “significantly overstated”, while actual size of bad debts isn’t fully disclosed as well.

All this pushes toward new financial alliances and mergers. If “Big Bang” reforming will bring real results, it will also provoke a wave of closures and bankruptcies and enhance the risk of possible default on accounts receivable by companies. It was exactly with an eye on such situations that Japanese trading house Marubeni recently formed a joint venture with Allianz Group of Germany to sell insurance policies covering risks of such eventual defaults.¹²⁰

However, recently, public attention was again attracted by M&A intended and played out in Europe.

For example, in Sweden, two of the four big local banks announced plans for a \$15.9 billion merger which “would give them a strong platform for European expansion”.¹²¹

In Britain, giant Lloyds TSB undertook a prolonged attempt to take

over Abbey National, a home-loan specialist, “to create a new banking and mortgage giant on the British high street.” The first two bids foreseeing a mix of cash and shares offering were called “unattractive” and “inadequate,”¹²² but later Lloyds TSB still managed to prevail.

Prudential, another major British financial player, also tried to take over a rival, this time one in the U.S. In February 2001, Prudential made a generous offer to American General, a Texas-based insurer. It has been accepted in principle, but at that very moment a competing offer (for \$23 billion in stock) has been made by AIG, “the largest publicly quoted insurer”, based in the U.S.¹²³ At this writing, the case was still pending, and its outcome depended in major way on the current dynamics of stock prices (both for Prudential’s and AIG’s shares).

And in May 2001, Britain’s largest mortgage lender and the fifth-biggest bank in term of assets, Halifax Group PLC, and the Bank of Scotland, the nation’s seventh-biggest, announced plans to merge to form a \$40 billion business. The two lenders would operate under a new holding company, called HBOS PLC, but would continue doing business under their old names. The deal could threaten the traditional positions of the four dominant banks: HSBC, Royal Bank of Scotland, Barclays and Lloyds TSB.

The deal could help the Bank of Scotland bounce back from its failure to merge with mortgage lender Abbey National that had been taken over by Lloyds TSB in an sudden “unsolicited bid”.¹²⁴

In the newest megamerger race, also cases of failure (like the case with Bank of Scotland and Abbey National merger), and even of strategic retreat from time to time attract public attention. For example, on the eve of 2001, the Dutch insurance and banking leader, ING Group, had to admit defeat in its attempt “to build a global investment bank.”¹²⁵ ING’s North American banking activities produced losses, so it decided “to scale back

its investment banking ambitions” by restructuring its U.S. branch ING Barings and then selling its local (U.S.) operations through Goldman Sachs. As for European branch and Barings’ emerging banking businesses in Asia, Central Europe and Central America, they should be retained and integrated in ING’s wholesale business organization.

It is interesting to notice that this retreat took place five years after ING bought Barings, one of eldest British banks, for a symbolical price of one pound sterling and assumed its liabilities following huge losses run up in Singapore by its staff trader Nick Leeson (this case merits a special story, however). Recent defeat also came three years after ING paid \$600 million for Furman Selz, the U.S. firm, and less than six months after it bought Charterhouse Securities for \$180 million.

In March 2001, rumors began to circulate about an eventual takeover of major German bank, Dresdner Bank, by the biggest German insurer, Allianz AG, which already owned 21.4 percent stake in Dresdner. Obviously, Allianz intends to change its orientation, which before was focused on cooperation with Deutsche Bank, main rival of Dresdner. If realized, Allianz’s new plan would lead to creation of “one of Europe’s largest bancassurance groups,” according to a senior Frankfurt banker.¹²⁶

Of course, corporate realignment of banking business is taking place outside the Triad (U.S. - Europe - Japan) as well.

As an example, we can mention “the largest takeover in Australian history”, when Commonwealth Bank of Australia Ltd. (CBA) announced a share swap with insurer Colonial Ltd. aimed at creating a \$ 5 billion global financial group. The “friendly merger bid” would create Australia’s largest domestic bank also taking the No. 3 slot in national insurance business. The transaction would give Australian bank access to China, as Colonial is the only locally owned company to have a China insurance license. It also has operations in New Zealand, the U.K. and in many countries of Asia.¹²⁷

Also, in South Korea, a government-led reform program aims at forging mergers among 22 local banks to create bigger and more efficient financial institutions. Recently, two giant banks, Kookmin Bank and Housing and Commercial Bank, reached a final agreement on a merger to create “the country’s biggest lender.”¹²⁸

As an example of consolidation efforts in the young financial sphere of countries making a transition to market economy, merger between Poland’s Bank Handlowy SA and BRE Bank SA may be serving well, because it will create “Eastern Europe’s largest financial institution in terms of capital” (\$ 9 billion).

Lately, also U.S. and European financial institutions began penetrating the banking sphere of this promising sub-region. In November 2000, it was announced that Citigroup was acquiring the aforementioned Bank Handlowy of Poland, while Scandinaviska Enskilda Banken (SEB) was taking over Vilniaus Bankas of Lithuania.¹²⁹

Oil and Gas. This is a typical “old” industry which, however, remains of great significance and can influence economic processes in a major way.

The biggest event in this vital field was “the richest corporate takeover in history”, taken place at the end of 1999, when U.S. colossus Mobil was bought for \$77.2 billion by another U.S. titan, Exxon. The oil and gas conglomerate Exxon Mobil that emerged as a result of this megadeal has taken the No. 1 spot in this global industry, ahead of Royal Dutch-Shell. It has also pushed General Motors from the first position in the world among the largest non-financial corporations.¹³⁰

After extracting record concessions from the two oil giants, the Federal Trade Commission approved the merger. The FTC was requiring Exxon and Mobil to sell 15 percent of their gasoline stations and other assets worth a total of about \$ 2 billion, including the Exxon refinery in

Northern California and all of Exxon's 360 California gasoline stations. As a result of the settlement, California's gasoline market would gain a major new competitor because the refinery and service stations were to be sold to a single buyer acceptable to the FTC.

By demanding all this, the FTC has also given a hint of high hurdles ahead for another merger, between BP Amoco (a British giant) and Los Angeles-based Atlantic Richfield Co. (Arco), that was also pending. However, in spring 2000, this megadeal has been approved as well.¹³¹ And at about same time, BP Amoco paid \$4.7 billion for one of Britain's oldest oil companies, Burmah Castrol PLC, in hope of bolstering its share in the world market for lubricants.¹³²

Shortly before, at the end of 1998, the French Total SA acquired Petrofina SA thus creating the world's sixth-largest oil and gas company. The deal to create TotalFina was based on a stock swap that gave Total control of 41 percent of Petrofina, Belgium's largest industrial company.

"The combination of Total and Petrofina will allow the new entity to capture substantial productivity gains, particularly in the North Sea, and to expand its positions in the deep offshore (United States, Angola)," a joint statement said.¹³³

However, very soon, new TotalFina came out a big winner in a two-month-long takeover battle with its main French rival, Elf Acquitain, overcoming the resistance from Elf's management by using generous offer to its shareholders (a "sweetened bid") and thus making the next move up, creating "the world's fourth-largest oil group."¹³⁴ At once, a deep restructuring of the widespread new system has begun. As part of it, TotalFina Elf prepared, for example, a sale of its 45 percent stake in Spanish oil firm Compania Espaniola de Petroleos (Cepta).¹³⁵

In 2000, California-based Chevron Corp. announced its intention to buy for \$34 billion Texaco Inc. with headquarters in New York. The cumu-

lated assets of the two giants amounted to \$85 billion. So, this transaction was said to mark “a new stage in the oil industry consolidation” and put the new group, ChevronTexaco, in the fourth position in the world.¹³⁶ However, before this deal could get official approval, the companies were also obliged to sell a significant part of their assets to calm down worries about monopoly effects of the combination.

In U.S. oil refining, 2001 brought a major takeover (deeply indebted Tosco Corp. was acquired by Phillips Petroleum Co.) creating second-largest player in this important business sector and a gasoline retailer with more than 12,000 stations.¹³⁷

Japan has no crude oil of her own, but liquid fuels are playing a major role in country’s economic development. In recent times, the first big event in the field of oil refining and distribution was the merger of Japan’s second-largest petroleum distributor, Nippon Oil Co., with the six-largest, Mitsubishi Oil Co., that brought about the nation’s new leader capable “to survive intensifying competition in the oil industry.”¹³⁸ Soon, as the next step in combat for the leading positions in this highly competitive market, the newly created Nippon Mitsubishi Oil Co. entered “a wide-ranging business alliance” with Cosmo Oil Co., the third-largest oil distributor, giving them a dominant 37.4 percent share in the Japanese refinery market. Under the agreement, the partners will also set up a distribution joint venture, supply petroleum products to each other, jointly operate oil storage tanks, share oil tankers and oil transport vehicles and consign output of petroleum products to each other.¹³⁹

At approximately same time, Tonen Corp., a large oil refiner, and General Sekiyu K.K., an oil distributor (both belonging to ExxonMobil Corp. and listed on the first section of Tokyo Stock Exchange), have reached a basic agreement to merge. The deal was regarded as “part of a global restructuring drive following the creation of ExxonMobil, the

world's largest oil company.”¹⁴⁰

Same year, it was also reported that Showa Shell Sekiyu K.K., Japan's third-largest oil distributor with European ties, and Japan Energy, the fifth-largest, “may integrate all their operations in 2003, possibly through a merger.”¹⁴¹ This plan, if succeeded, would secure the new entity a combined share on Japanese market of about 23 percent, matching that of Nippon Mitsubishi Oil Corp. and the combined shares of the Japanese subsidiaries of the ExxonMobil group.

In a bid to expand its foothold in Japan, local subsidiary of Britain's BOC Group Inc. announced its plan to obtain the full ownership of industrial gas maker Osaka Sanso Kogyo Ltd. It was expected that later (maybe, by October 2001) BOC Japan would completely merge with the newly acquired Japanese company.¹⁴²

In Australia, the government recently rejected oil giant Shell's \$5 billion hostile takeover of the largest local oil and gas producer, Woodside Petroleum, “because it was contrary to the national interest.” The government in Canberra is said to be under intense pressure to limit foreign purchases of Australian companies.¹⁴³

Notably, megamergers in such “old” industries as oil production and refining usually bring about significant job cuts. For example, the Exxon and Mobile merger would cut up to 16,000 jobs worldwide by 2002. And even the aforementioned Castrol takeover by BP Amoco was expected to bring a loss of about 1,700 jobs.¹⁴⁴

In the end of 2000, the world has been reminded of the existence of big private oil producers in Russia. The oil and gas industry's leaders, Lukoil, agreed to acquire retail gasoline chain of about 1,3000 gas stations in the United States, Getty Petroleum Marketing, “paying in cash in what appears to be the first purchase by a Russian company of a publicly traded U.S. firm.”¹⁴⁵ “We consider this a springboard to further acquisitions in the

U.S.,” said Vadim Guzman, head of Lukoil U.S. operations.

Speaking about Russia and its rich oil reserves in the Far East, it is worthwhile to mention the participation of major Japanese trading houses, Mitsubishi Corp. and Mitsui & Co., in an international oil development project off Sakhalin Island (dubbed Sakhalin II). Recently, Mitsubishi has risen its stake in Sakhalin Energy Investment Co., a joint venture set up by an international consortium to manage the project, from 12.5 to 20 percent by buying shares from Royal Dutch-Shell Group. Initially, one more participant in the project was U.S. petroleum and gas firm Marathon Oil Co. However, after Marathon Oil Co. sold its stake to Royal Dutch-Shell, while Mitsubishi, in its turn, bought some shares from it, the project itself and Sakhalin Energy Investment Co. are owned 55 percent by Royal Dutch-Shell Group, 25 percent by Mitsui and 20 Percent by Mitsubishi.¹⁴⁶

Steel Making and Metalworking. This is one more traditional resource-based industry of major importance where a virtual avalanche of corporate mergers and partnerships began recently, particularly since early 2001.

Rather unusual about the newest M&A wave in this vital economic sector was the fact that in combat for leading positions, particularly for the No. 1 spot, only companies of Japan and Europe were engaged (at least, at the moment of this writing), while U.S. steel industry looked if not in a direct decline than obviously on the defensive.

Both management and workers of major U.S. steel companies are worried watching “strangers in business suits” from Germany and Japan going around their mills looking for takeover targets. In recent years, 18 U.S. steel firms have filed for bankruptcy protection. Even the nation’s No.1 steelmaker, USX Corp’s U.S. Steel Group, reported huge loss for the first quarter of 2001. General feeling was that “stock price declines may tempt foreign companies to make cheap acquisitions that could bring clo-

tures and layoffs.”¹⁴⁷

Let us notice that, until late 2000 - early 2001, this industrial sector generally lagged behind in M&A activities. According to experts, the world’s 10 biggest steel groups control only a quarter of the global market. Nowadays, however, a need to reduce costs at a time of over-production and low steel prices urges steel groups to realign and look for economies of scale.

True, in recent years, Usinor of France has acquired Cokerill Sambre of Belgium, British Steel and Hoogovens of the Netherlands have merged to form the new group Corus. What is called “partial mergers” secured the integration of steel businesses of Otokompu Steel and Anglo-Swedish Sheffield, while in research, development and supplies Japan’s Kobe Steel and U.S. Steel have linked up, etc.¹⁴⁸

In late 2000, a business tieup was agreed between Kawasaki Steel Corp., Japan’s third-largest steel company, and Hyundai Pipe Co. (Hyundai Hysco), which exists under umbrella of Hyundai Motor Co. thus belonging to a mighty Korean “chaebol” (specific local form of industrial and financial group). New partnership includes technology transfer to the Ulsan-based Korean partner to help upgrade the production of steel plates for use in automobiles, as well as Kawasaki's capital participation in Hyundai Pipe through purchase of a stake of more than 10 percent.

Kawasaki expected the tieup would expand its steel exports to South Korea’s largest automaker, and also strengthen its competitiveness against Japan’s two biggest steelmakers, Nippon Steel Corp. (which has a strong relationship with South Korean steelmaker Pohang Iron & Steel Co.) and NKK Corp. To widen the base of this major partnership scheme, Kawasaki called upon five major Japanese trading houses (Mitsui, Marubeni, Sumitomo, Itochu and Mitsubishi) to join it in acquiring equity stakes in Hyundai Pipe.¹⁴⁹

And still and yet, it looks like the decisive step that unleashed a frenzy of cross-border M&A and partnerships in the field of steel making and metal working was the signing of the so-called Global Strategic Alliance Agreement between Nippon Steel Corp., the world's No. 1 at that time, and France's Usinor SA, the then Europe's largest steelmaker, under which the two firms intend to "manufacture the sheet steel products they will jointly develop to supply automakers worldwide."¹⁵⁰

What followed immediately after was the three-way merger in Europe, between same Usinor, Arbed of Luxembourg and Aceralia of Spain. The idea behind it is to unite under joint control the production of between 50 and 60 million tons of steel a year, or double the output of the just acquired strategic partner and current global leader, Nippon Steel (which produced 28.1 million tons in 2000).¹⁵¹

"Their product range is complementary, not overlapping," said about this historic three-way all-European megadeal Markus Moll, director of industry research outfit Steel & Metals Market Research. "I think they will get approval from Brussels."¹⁵²

This new big event in European steelmaking provoked, quite naturally, a feverish reaction in Japan, among whose firms virtual M&A race and frantic search for business scale and interesting partners worldwide has begun.

Three Japanese groups, NKK Corp., Sumitomo Heavy Industries Ltd. and Hitachi Zosen Corp., first have agreed to join forces in the construction and development of plants, and later entered "a broad business tieup with an eye toward integrating steel plant and engineering operations" by the end of March 2003.¹⁵³

At approximately same time, major Japanese trading houses, Mitsubishi Corp. and Nissho Iwai Corp., agreed to spin off their steel products operations by October 2001, and then to integrate them under a joint

venture by the fall of 2002. Itochu Corp. and Marubeni Corp. were in talks on merging their steel products units as well, while NKK Corp. and Germany's Thyssen Krupp AG were also negotiating a tieup "beyond present technological exchanges."¹⁵⁴ Nippon Steel and Sumitomo Metal Industries Ltd. have tied up in the stainless steel business, etc.

These moves were "in line with the industry-wide consolidation trend amid declining revenues due to intensifying competition among steelmakers and cost-cutting by automakers, the largest users of steel products."¹⁵⁵

In one month, April 2001, several megadeals with participation of Japanese firms have taken place forming both new production-and-marketing groups and international partnerships in steel making and metal working.

Thus, NKK Corp., Japan's second-largest steelmaker, and Kawasaki Steel Corp., then No. 3 in the field, announced an agreement to integrate their operations from October 2002 under a joint holding company. Later (since April 2003), the two steelmakers are going to realign themselves into several firms under the holding company. This deal was dubbed "the first integration between major steelmakers since the creation in 1970 of Nippon Steel" (through the merger of Yawata and Fuji iron and steel companies).¹⁵⁶ With 32 million tons of crude steel annually, the integrated company was expected to move ahead of Nippon Steel Corp. Also, Kawasaki Steel signed an agreement with Ohio-based AK Steel Corp. of the United States "to cooperate on research and technology for the automotive steel business."¹⁵⁷

With an eye on improving their overseas railroad system construction and high-speed train cars businesses, Hitachi Ltd. and Kawasaki Heavy Industries Ltd. (parent of Kawasaki Steel) agreed to jointly promote sales and maintenance operations through setting up "a joint window" to

receive orders and establish a joint management team for each project.¹⁵⁸

With another partner, Ishikawajima-Harima Heavy Industries Co. (IHI), Kawasaki Heavy Industries plans integrating shipbuilding operations into an equally owned venture to be formed by October 2002. The move would create Japan's second-largest shipbuilder, after Mitsubishi Heavy Industries Ltd. Later, this alliance is likely to expand to include Sumitomo Heavy Industries Ltd. in production of naval ships. Also, cooperation with Mitsui Engineering & Shipbuilding Co. may be enhanced.

If we consider that Hitachi Zosen Corp. and NKK Corp. also have agreed to merge their shipbuilding operations in October 2002, it is clear that a deep realignment of this industrial sector is taking place. It is expected that "alliances will consolidate Japan's shipbuilding industry from seven players into three."¹⁵⁹

Same spring of 2001, IHI was also in talks with the world's biggest paper machinery maker, Voith Paper Inc. of Germany, to integrate their businesses in Asia. By April 2001, a joint venture had to be set in Japan to consolidate IHI's development and marketing divisions and Voith's Japanese subsidiary.¹⁶⁰

Since early 2000, Kobe Steel, Japan's fifth-largest steelmaker, was looking for partners, both in the U.S. and Europe, to form a wide international alliance in the field of construction machinery.¹⁶¹

Practically all these moves, domestic and international, foresee organizational restructuring of participating economic entities and considerable cuts in workforce. However, there are grounds to see them as a beginning only. Maybe, major events are still in store and would probably include domestic and cross-boarder M&A bids by U.S. firms, as well as M&A targets in countries outside the big Triad.

Some Other Basic Industries. It looks also worthwhile to outline some trends and to analyze some typical examples of domestic and cross-border M&A and partnerships in several other traditional industries, which remain basic in their economic and social importance, while also undergoing deep restructuring and modernization.

In **tire & rubber** industry, in contrast with steelmaking, centralization of capital traditionally is high. However, also there an active hunt after size and geographical scope goes on, especially in Japan.

Thus, in 1999, Goodyear and Rubber Co. of the U.S., looking for the return of the No. 1 spot in the tire industry, agreed on a “capital and business partnership” with Sumitomo Rubber Industries Ltd., to create “the world’s largest alliance” in this vital industrial sector.¹⁶² Sumitomo Rubber, the fifth-largest tire producer in the world, and Goodyear, the third-biggest, control 22 percent of world’s tire market. Together, they will surpass Bridgestone Corp. of Japan and Michelin SA of France, the world’s top producers with a market share of around 18 percent each.

At the end of 2000, Sumitomo Rubber, Japan’s third-largest automobile tire maker, increased its stake in affiliate Ohtsu Tire & Rubber Co., fifth-largest producer, to nearly 50 percent. According to industry experts, should it exceed 50 percent, a new, second-largest, national tire-making group would emerge (after Bridgestone).¹⁶³

On the other hand, as a part of restructuring, Toyo Tire and Rubber Co. sold its inflatable life raft business to British marine and aerospace survival products maker RFD Ltd. Company officials stressed that by withdrawing from slumping life raft business, Osaka-based company aims to focus on the mainstay tire and auto parts businesses.¹⁶⁴

In Japan’s **pulp and paper** industry, Nippon Paper Industries Co., the second-largest producer, and Daishowa Paper Manufacturing Co., industry’s No. 4, have recently set a holding company and from April 2001

given over to it control over their integrated operations. Both have excessive production capacities and manufacture similar products at plural facilities, a drawback which they hope to overcome by integrating their assets and management structures. So, the aim of the merger was “to streamline excessive production capacities and pursue an efficient corporate group strategy under the holding firm,” according to top officials of the two companies.¹⁶⁵

If realized, the merger would create a new entity equal in size to Oji Paper Co., the nation’s largest. Let us notice that one of two partners, Nippon Paper, itself emerged as late as in 1993 after the well-known merger of Jujo Paper Co. and Sankyo-Kokusaku Pulp Co.¹⁶⁶

In **chemical** industry, as early as 1999, Sumitomo Chemical Co. and Mitsui Chemicals Inc., Japan’s No. 2 and No. 3 chemical manufacturers, announced establishing a joint firm to manufacture and market synthetic rubber and resin. Particularly, Sumika A & L Inc., a wholly owned subsidiary of Sumitomo Chemical based in Osaka, and ABS section of Mitsui Chemical merged to become a new company with an aim of improving efficiency in producing resin used in vehicles parts. With 67 percent stake, Sumitomo would probably play the leading role in this joint venture.¹⁶⁷

About a year later, the two partners opened new negotiations on a possible integration of their operations by October 2003. Should it materialize, the nation’s largest chemical firm would emerge, with consolidated sales worth 1.8 trillion yen. It would surpass the current leading firm, Mitsubishi Chemical Corp., and would also rank at No. 6 in the world. The move was aimed “at improving the firms’ competitiveness against foreign rivals ahead of the planned reduction of import tariffs on petrochemical resin products in 2004.”¹⁶⁸

After one more year, in April 2001, Sumitomo Chemical Co. and Mitsui Chemicals Inc. announced a plan to achieve a still higher degree of

integration of their operations, and thus “to effect a de facto full merger.” According to this new scheme, the envisaged joint holding company would effectively “subsume both Sumitomo and Mitsui”, i.e., they wouldn’t be separate entities any more.¹⁶⁹

In their striving for bigger size and wider scope of operations, Japanese chemical firms are obviously looking toward Europe.

For example, in early 2000, Mitsubishi Corp. and Asahi Glass, i.e., one of the leading trading companies and the nation’s largest glass maker, both belonging to Mitsubishi group, agreed to jointly buy from British Nuclear Fuels PLC (BNFL) its subsidiary, F 2 Chemicals Ltd., specializing in manufacture and sale of fluorine chemicals. Under the deal, Asahi Glass would acquire 49 percent of the stock, while Mitsubishi Corp. and its affiliates would own the remaining 51 percent.¹⁷⁰ The European Commission quickly approved the deal “after determining that the transfer of ownership would not restrict competition in any of the markets concerned,” EU officials said. Maybe, the decision came so early because it was well-known that BNFL was frantically seeking a purchaser for F 2 Chemicals in an effort “to reestablish itself in the wake of an embarrassing data falsification scandal concerning shipments of plutonium-uranium mixed oxide fuel to Japan.”¹⁷¹

In another bold move to Europe, Asahi Kasei Corp., the biggest adipic acid manufacturer in Asia and the fifth-largest in the world, agreed to tie up with France’s Rhodia to jointly make this chemical to service the global demand.¹⁷²

From events outside the Triad, an attempt by Russian state-owned gas giant Gazprom “to flash out the true owners” of Hungary’s petrochemical firm BorsodChem. and to acquire control over it through a hostile takeover should be mentioned. The “financial watchdog” of the country, which has been working hard to transform its economy into a transparent

free market, had to undertake frantic efforts in its countermoves to stop this secretive deal.¹⁷³

Consumer goods and services. In this heterogeneous and highly diversified sphere, where concentration of production and domination of markets by the biggest players generally is considerably lower than in both traditional basic industries and modern high-tech sector, a new round of active regrouping is especially hot and dramatic.

In **food & beverage** industry, a frantic search for M&A opportunities goes on worldwide. Leaders, such as Coca-Cola Co. and PepsiCo in the soft-drink sector, or as Diageo and Allied Domecq in the liquor-and-wine sector, are engaged in a virtual combat for attractive brands and promising market outlets.

In this basic consumer-oriented industry, one of the biggest deals as of lately was the acquisition of Tropicana, a major producer of fruit juices, by PepsiCo., the world's second-largest soft drink manufacturer based in the U.S. The seller, Seagram Co., a Canadian conglomerate that owned both famous liquor distilleries and Universal Studios, sacrificed Tropicana (which, by the way, accounted for 40 percent of the ready-to-drink orange juice market in the U.S.) to raise money for an intended purchase of PoliGram, the No. 1 music company in the world at that time.¹⁷⁴

Sometime later, Britain's Diageo PLC, the world's No. 1 spirits company, and France's Pernod Ricard SA clinched in a hot rivalry a \$8.15 billion cash deal to acquire Seagram Co.'s alcoholic drinks business (including such famous brands as Chivas Regal Scotch whisky and Absolut vodka) from Seagram's new owner, Vivendi Universal SA of France. The Anglo-French consortium triumphed over a competing offer by Brown-Forman Corp. of Louisville, Ky., and Bacardi Ltd. of Bermuda. Analysts said, it was the biggest deal in the liquor business since Guinness and Grand

Metropolitan merged to form Diageo itself in 1997. “The Seagram acquisition will reshape an industry that, like so many others, is consolidating rapidly,” wrote the Japan Times.¹⁷⁵

In search for funds to further strengthen its position on the market of high spirits, one of the partners who have bought Seagram, Pernod Ricard, was looking for a buyer for its soft drink unit, Orangina-Pampryl. An eventual transaction with Coca-Cola had to be scrapped because of opposition from the French government. However, by spring 2001, Pernod has found a purchaser of Orangina in Cadbury Schweppes, the British food-and-beverage group.¹⁷⁶

After having missed the chance to acquire Seagram, another world leader in spirits and wine sales, Britain’s group Allied Domecq, which is fighting with Diageo for the No. 1 spot worldwide, added two prestigious French champagne houses, Mumm and Perrier-Jouet, to its drinks cabinet.¹⁷⁷

In the meantime, in the same round of corporate restructuring in European food-and-beverage industry, Danish beer king Carlsberg AS bought control over Switzerland’s leading drink company, Feldschloesschen, producer of the famous beer brand of the same name. It is worthwhile to notice that Carlsberg already operates about 100 subsidiaries and 90 percent of its sales are outside Denmark.¹⁷⁸

As for Coca-Cola, lately it had a lot of bad luck. Even before it failed to purchase Orangina, in late 2000, Coke also had to abandon its pursuit of Quaker Oats Co. because the soft-drink giant’s own board of directors (and Coke’s main investor, Warren Buffet, personally) finally rejected a \$15.75 billion stock acquisition in connection with concerns that ranged from the negotiated price to issuing new Coke shares and possible antitrust implications.

Characteristically, at once the main rival, PepsiCo, snatched Quaker

Oats, with its prized Gatorade sports drink and best selling Life cereal, for \$13.4 billion in stock, and did it literally from under the nose of another international rival, French food group Danone. Let us notice that PepsiCo wasn't stopped even by the fact that together with the famous brands it acquired Quaker's formidable debt of about \$ 761 million.¹⁷⁹

Maybe as a harbinger of new developments ahead, aforementioned Warren Buffet, who already owns over 8 percent of Coca-Cola stock, recently acquired (through his investment company, Berkshire Hathaway Inc.) a token share of 1 percent in Tricon Global Restaurants, which PepsiCo had spun off in 1997. In its turn, Tricon, based in Louisville, Ky., is the parent company of Pizza Hut, Taco Bell and KFC. Journalists are making jokes that, before retirement, billionaire "has apparently also developed a taste for Pepsi."¹⁸⁰

In the highly competitive market of cookies, crackers and other snack products, recent actions of well-known U.S. firm Nabisco Holdings Corp. were especially emblematic. In 2000, a prolonged campaign has been fought to acquire United Biscuits, maker of British favorites such as Jaffa Cakes, a chocolate-covered cookie. "The venerable British tradition of tea and biscuits may become a bit Americanized," went a jock popular in the press at the time of the deal.¹⁸¹

To make this ultimately successful bid, Nabisco, which itself is famous for such brands as Oreos, Ritz and Snackwells, joined forces with several other food firms (Hick, Muse, Tate and Furst) to form a company, Burlington Biscuits, which actually made the acquisition. According to the scheme, Nabisco agreed to sell its operations in Europe and the Middle East to Burlington in exchange for a 23 percent equity stake in it. Other partners had also to sell their biscuit brands to Burlington, while Nabisco would directly take over United Biscuits' operations in China, Hong Kong and Taiwan (all in all, United Biscuits employed 22,500 people in 22 coun-

tries).

However, after half a year, Nabisco itself has been purchased for \$14.9 billion by Philip Morris. The world's largest tobacco company, headquartered in New York and already involved in food markets with its Kraft Foods subsidiary, obviously tries to further change its business profile in connection with the strong anti-tobacco campaign in the U.S.¹⁸²

And one more deal in the U.S. (and global) snack-food sector. In October 2000, its acknowledged leader, "cereal giant" Kellogg's, acquired for \$3.6 billion also well-known firm, Keebler Foods, the second-largest cookie and cracker maker in the U.S. "Tony the Tiger is devouring Ernie the Elf," cried the press worldwide.¹⁸³ Kellogg's brands are sold in 160 countries, and company's bosses expected the merger to allow better growth of Kellogg's convenience foods through Keebler's store delivery system (DSD - direct store delivery).

"The Kellogg-Keebler combination will create a diversified food company with \$10 billion in annual sales and a unique arsenal of popular brands and spokes-characters," company said in a statement.

By the way, Japan also gets "Americanized", particularly, by Starbucks Corp. The world's biggest coffee shop chain, which started its operations in Japan in 1996, recently opened its 200th shop in Tachikawa, a suburb of Tokyo, and is planning to have more than 500 local outlets by March 2004.¹⁸⁴

However, those are not only U.S. leaders who are using M&A to gain the new business scale and scope.

As one example of worldwide expansion of a European-based TNC, let us mention the purchase by Anglo-Dutch consumer products group Unilever PLC/NV, a \$50 billion giant that already owns some ice cream brands, of Ben & Jerry's, "the quirky Vermont-based ice cream company that made advancing socially responsible policies a crucial part of its busi-

ness strategy,” for a rather modest sum of \$265 million in cash (which, however, secured a significant premium on Ben & Jerry’s earlier share price).

“We had a situation where Unilever has the largest ice cream manufacturing presence in the world, but no strategic presence in the super-premium category,” said Antony Burgmans, the chairman of Unilever.¹⁸⁵

As its next move, Unilever agreed to pay \$2.6 billion for Slim-Fast, the diet shake company based in West Palm Beach, Florida, which controls 45 percent of the \$1.3 billion nutritional supplement and weight management market.

Simultaneously, in its overall restructuring effort and to easy regulatory concerns after yet another takeover, that of Bestfoods, Unilever sold its dry soup and sauces businesses to Campbell Soup for 1 billion euro. For U.S. food giant, this deal should boost its presence in the corresponding European market segments.¹⁸⁶

As still another example of M&A activities of major European food companies, let us mention the acquisition by Swiss leader Nestle S.A. of the pet food maker Ralston Purina for \$10 billion in cash. Ralston’s business in North America will be given over to a new joint entity, Nestle Purina Pet Care, a move which should help “to bring this pet care business around the world to new levels,” said William Stritz, chairman of St.Louis-based Ralston Purina. In his turn, Nestle’s chairman, Rainer Gut, pointed out that “the complementary strengths of Nestle and Ralston Purina will accelerate both its growth and the performance of the Nestle Group.”¹⁸⁷

In Japan, food companies are facing intensifying competition resulting, first of all, from deregulation of retail business opening doors to foreign rivals. As an example of an attempt to survive in this situation, a merger between Mitsui Sugar Co. and Shin-Meito Sugar Refining Co. can be mentioned. Foreign competition, together with development of sugar

alternatives, pushed the partners to join forces and not to rely on “independent rationalization effort.”¹⁸⁸

In our view, all this shows just how much passion, maneuvering and organizational skills is involved in natural processes of corporate realignment, especially if they are developing on a wide international scale. What makes this global combat in the food-and-drink markets relatively more hot and dramatic is the unusually tense competition between the most famous brands for the mass-consumers’ dollar in each particular segment. There, to successfully acquire a good promising brand-mark equals to obtaining guarantee for an expanding market share, and not only locally but internationally, very often even worldwide.

In the realm of **retail trade**, many significant events take place worldwide as well. For example, as early as in 1998, an “upscale retailer”, Saks Fifth Avenue of the U.S., has been purchased for \$2.1 billion in stock by Proffitt’s Inc., “which has grown to one of the nation’s biggest department store chains through acquisitions.”¹⁸⁹ The combined company would have a total of 330 stores in 38 states and annual revenues over \$ 6 billion. Earlier same year, Proffitt’s acquired Milwaukee-based Carson Pirie Scott and Co. in a transaction that made it the No. 4 department store chain in the U.S.

More recently, a massive advance of foreign retail chains in stagnating market of Japan attracted much attention. As a kind of present to the new Millennium, French-owned Carrefour, the world’s second-largest retailer with its more than 9,000 supermarkets, convenience stores and other retail outlets in 26 countries, opened its first hypermarket in the Makuhari business district of Chiba prefecture, which is adjacent to several middle-class commuter towns. According to Daniel Bernard, chairman of Carrefour France, the retail group plans to make Japan the center of its business operations in Asia. It was reported that Carrefour had in mind to

follow this move by opening another “hypermart” to serve the region of Osaka (including Kansai international airport). Also, it was looking for local suppliers of beer and sake to complete its supply, because without this particular product line French retailer feels it is simply impossible to do business “in beer- and sake-soaked Japan.”¹⁹⁰

Practically at the same time, U.S.-based Costco Wholesale, a warehouse club chain that serves its customers through a paid-membership system, launched a new outlet in the same district “as if to dwarf an ailing Daiei discount store in the neighboring area.”

“Consequently, Japan’s distribution system will change over the next five to 10 years into a more transparent and efficient system,” wrote Akemi Nakamura in an analytical article.¹⁹¹

Trying to survive, Japanese retailers use different tactics. For example, ailing retail chain Daiei was selling out packages of shares of its affiliated convenience store chain Lawson Inc. to raise funds necessary for modernizing its own facilities.¹⁹² Also, it was reported that Daiei found a purchaser (Marubeni Corp.) for 5 percent of its own shares and 10 percent stake in Maruetsu Inc., another of its affiliated supermarket chains.¹⁹³ Kinki Nippon Railway Co. merged its retail outlets operated by Kintetsu Department Store Co. and Kyoto Kintetsu Department Store Co. in an effort to achieve financial stability and strengthen its retail business.¹⁹⁴ Trading giant Mitsui & Co. agreed to form “a comprehensive business tieup” with Ito-Yokado Co., a major supermarket chain, etc.¹⁹⁵

As something new for Japan, we can point to the investment by Cerberus Asia Capital Management LLC, an Asian arm of a major U.S. private equity fund, of Nagasakiya Co., in a Tokyo-based retail chain that went effectively bankrupt some month before. This attempt to rebuild a local trading firm under auspices of a U.S. group was regarded as “the first case in which a foreign company has supported a failed Japanese retailer.”¹⁹⁶

In the sphere of **hotel business**, some domestic and cross-border M&A transactions stand out.

For example, it is worth mentioning that, as early as in 1999, famous Hilton Hotels Corp., looking to complement its roster of upscale properties with a diversified group of moderately priced inns, acquired Promus Hotel Corp. for around \$ 3 billion. Promus operated and franchised 1,400 hotels in the U.S. under several brands, while Hilton was running about 270 luxury and high-end hotels worldwide.¹⁹⁷

Some U.S. acquisitions in Japan also have attracted public attention. Thus, U.S. private investment group Ripplewood Holdings, known for its headline-grabbing takeover of bankrupt Long-Term Credit Bank of Japan (LTCB), showed interest in another purchase of an ailing Japanese company, failed hotel operator Dai-Ichi Hotel Ltd., with an aim of rebuilding the business. At the same time, Goldman Sachs Group, a major U.S. investment banking organization, negotiated acquiring a chain of hotels in Japan from Daiei Inc., having in mind to resell them to other companies, including Bass PLC, a British firm that operates franchises under several names, including famous Holiday Inn.¹⁹⁸

From other interesting developments in this specific business sector, the following exotic purchase stands out. Singapore-based Raffles Holdings Ltd., whose flagship is prestigious Raffles Hotel in Singapore, purchased the Swisshotel chain of 23 hotels and resorts stretching across six continents from troubled SairGroup.¹⁹⁹

In still another unusual business sector, **tourism industry**, we should mention active corporate realignment going on in Japan. Lately, Japanese travel agencies are reeling from plunging corporate demand amid the prolonged economic slump, intense competition from newcomers handling discount package tours, and the popularization of Internet bookings bypassing travel agencies.

There, the No. 1 national travel agent, Japan Travel Bureau Inc. (JTB), agreed to establish a Tokyo-based joint venture (JTB Business Travel Solutions Inc.) in partnership with Carlson Wagonlit Travel of the U.S., “to better handle travel and expense management for corporate clients.”²⁰⁰ And soon after that, Kinki Nippon Tourist Co. and Nippon Travel Agency Co., Japan’s second- and third-largest travel agencies, have agreed to merge in January 2003 and obtained approval from their parent companies, Kinki Nippon Railway Co. and JR West. They hope that “synergies from the merger will give them greater bargaining power in negotiations with airlines and hotel companies and help them reduce costs to challenge JBT.”²⁰¹

At last, let us look at **railway transport**, which belongs to economic infrastructure and, at the same time, to consumer-oriented industries rendering services to wide circles of population.

Nowadays, even in such well-established and “settled” industries, regrouping and corporate consolidation can be seen because the imperatives of competition, both within the sector and against other means of transportation, prescribe better use of existing facilities and striving for economies of scale.

In early 2000, in an effort to provide a unified rail transport service throughout North America, Canadian National Railway Co. and Burlington Northern Santa Fe Corp., with “minimal overlapping operations and only minor duplication of activities”, announced a merger of their railway operations in a \$ 6 billion deal that would create the largest continental railway network.²⁰²

A modern development of somehow different kind represents the successful joint bid of international consultancy, Kingsley Group, and U.S. railway companies, CSX Corporation and Rail America, to purchase 66 percent of the formerly state-controlled Eesti Raudtee (Estonian Railway).

The newly established Rail Estonia consortium will own the track infrastructure, while cargo and passenger traffic operations have been given to other companies.²⁰³

And now, after looking at M&A activities on an industry-by-industry basis, it's time to try to establish trends and to deal with major topical issues regarding corporate consolidation and realignment processes in individual regions of the Triad, with special attention to the European Union area and, of course, to Japan.

(Series to be continued)

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