

Economic Integration and the Current Wave of M&A in the Area of the European Union*

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As a somewhat liberal, albeit realistic, generalization it may be pointed out that many new processes and trends in the global economy have been of American origin. For example, this can be said about such basic phenomena as the wide dissemination of the joint-stock form of private ownership (equity capital), or the emergence of giant “rigid” monopolies on the threshold of the 20th century, as a natural result of the first “rough” stage of industrialization, and their predomination in the national economy, or the countermoves of society through the introduction of antitrust legislation, or vertical integration overgrowing into and accompanied by diversification (to say nothing of conglomeration), or technological and information revolutions, the internet, e-trade and e-business. These are but few of the most recent novelties, and all such major developments and innovations are the children of the United States, that later spread and became a kind of lawful property of the civilized world as a whole. In other words, many important economic and social elements of the global economy’s common heritage coincide with those that characterize the United

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States (or, even wider, North America) and are demonstrated there fully and clearly. This can, of course, also be said about such specific, and still universal varieties of economic activity as corporate mergers and acquisitions. Let us be reminded that the first wave of M&A that was aimed at resolving the problems of horizontal (intra-industry, or sectoral) integration first arose in the U.S. and represented one of the major economic and social trends of the last decade of the 19th century.

To a considerable degree the same can be said about the current wave of M&A in the global economy. If we turn to any economic sector analyzed in the previous articles, it becomes obvious that the major U.S. corporations are the leaders not only at home but also globally. In many cases those were the same American giants which opened a new round in the intra-industry centralization of capital and corporate realignment. In the financial and carmaking industries, in mass media and communications, in the defense and aerospace industries, in oil production and refining, U.S. corporations have been involved in M&A and have initiated many of recent megadeals.

Let us especially stress that it was the U.S. economy that represented historically the first model of single market conditions created on a large (virtually trans-continental) scale. Moreover, long before the processes of regional economic integration and unification in Europe reached the stage when creation of a single market were put on the agenda, in North America not only a well-integrated national U.S. economy had existed but also a region-wide economic complex had emerged and was successfully functioning, thus securing the joint use of natural and human resources, production facilities and market structures of the two major industrial powers, the U.S. and Canada.¹

Long before both Canada-United States Free Trade Agreement (CUFTA) and North American Free Trade Agreement (NAFTA) were

implemented (and even signed), at least three highly integrated “continental” industries had been formed and gathered decades-long experience in Canada-U.S. joint business development, namely farm machinery, defense and aerospace, and the automotive industry.

The Big Three in North American carmaking, that as recently as in the late 1980s still controlled almost all regional car manufacturing and about 80 percent of the continental car market, used the resources of both countries while concentrating assembly operations in one of them. In particular, General Motors and Ford Motor Co. were running assembly facilities in Detroit, Michigan, while Chrysler Corp. had placed its assembly plants across the river, in Windsor, Ontario (Canada). In addition to a solid presence in Europe gained after the World War II, lately all three North American carmakers have made acquisitions in other regions, first of all in Japan. Some purchases secured minority stakes only, while others gave the U.S. giants effective control over Japanese companies. In the meantime, Chrysler Corp. has come under the control of Europe’s Daimler-Benz A.G., while such major Japanese manufacturers as Toyota, Nissan and Honda not only established a solid presence in the North American car market, but also opened and expanded their subsidiaries running substantial car assembly operations in the U.S., Mexico and Canada.

It can be concluded that in the current processes of globalization in general, and in the formation of a global automotive “super-industry” in particular, North America, with its giant integrated market, represents a highly attractive sphere for the marketing and investment efforts (including such effective tool as M&A) of the major players of the Triad whose aspirations are focused on achieving leading positions worldwide. The same can be said about some other key sectors of world economy, such as telecommunications, pharmaceuticals, and the food and beverage industry.

After the historic defeat of Communism in the Cold War and disinte-

gration of the Soviet Union, the United States found itself in the position of being the world's only superpower, politically, militarily, but also economically. "The United States at the end of 2000 was an unrivaled superpower presiding over a Pax Americana," Walter C. Clemens Jr., professor of political science at Boston University stated in an article (which, by the way, was devoted to criticism of U.S. President George W. Bush for his "commitment to a Fortress America" and rampant "American unilateralism" in foreign policy making).²

However, the modern global economic and political situation is a highly dynamic and changeable one. So, hardly has this very decade ("lost" by Japan, albeit extremely successful for U.S. economy) come to an end than has the political vocabulary begun changing as well, enriched by the massive use of such buzzwords as "a multipolar world" or "an increasingly interdependent, multilateral world", by reasoning about an inevitable "end to unipolar stability" that has taken shape in the 1990s, etc.³

Emblematically for the new millennium, such "quasi-great powers" as Russia, China and India, very populous and highly endowed with natural resources, making them potential world leaders, have been engulfed in a search for a viable form of partnership relations among themselves aiming at counterbalancing a U.S. economic and military hegemony. Their ambitions and aspirations might be not very well grounded, but such ambitions and aspirations are the realities of modern politics.

For example, after the first year of Vladimir Putin's presidency, it has become clear to many potential allies of Russia that it has strong geopolitical aspirations and is looking for "strategic alliances" against alleged U.S. dominance in world affairs. Venezuelan President Hugo Chavez, during a state visit to Moscow in May 2001, stressed his satisfaction that "the Russian people are now standing on their usual path, the path of a great Russia." Putin and Chavez signed a political declaration

affirming efforts “to build a new multipolar and peaceful world, built on the principles of noninterference in internal affairs and sovereignty.” In June 2001, during a summit meeting of the so-called Shanghai Five (China, Russia, Kazakstan, Kyrgyzstan and Tajikistan), a new regional organization was launched as the Shanghai Cooperation Organization (SCO) and included the above five countries plus Uzbekistan. Aiming at safeguarding regional security against what has been labeled as “religious extremism and terrorism” and promoting trade and investment, this vast alliance encompassing about two-thirds of Asia is undoubtedly ready to lay claim to an independent role in the multipolar world.⁴

Much more serious and better grounded are, however, the joint aspirations of the major Western European countries, members of the European Union. First of all, we have in mind Germany and France, whose common interests and global ambitions have most clearly manifested themselves in the sphere of monetary policy, where the bold project to introduce a single currency, the euro, has been designed and is being successfully implemented. In other cases, however, these continental leaders have found an ally in Great Britain as well. For example, unexpectedly for many, London gave its backing to the idea of a “Common Foreign and Security Policy” (the so-called second pillar of the Maastricht Treaty). At the EU summit in St. Malo, Britain also signed the “Euro Defense” project, designed to create an independent European military contingent, the European Rapid Reaction Force (ERRF), to be focused on such tasks as “peacekeeping, disaster-relief and humanitarian operations.”⁵ Among motives behind such European endeavors, according to some reports, has been “a French-led effort to dilute Washington’s influence on the continent.” Moreover, many believe a collective “Euro Army” (an apt name, although military officials refuse to call it this) to be “the first step in wrecking NATO.”⁶

In May 2001 the first official EU diplomatic visit to Pyongyang and Seoul took place, headed by Swedish Prime Minister and the then-current head of the European Union, Goran Persson. The aim of this “unprecedented mission” (the highest-level Western delegation ever to travel to North Korea) was “anything but modest”. According to an official fact sheet, “the EU would like to encourage the search for a solution bringing lasting peace” between the two Koreas. Although the head of the delegation emphasized that what it was doing “was closely coordinated with the U.S. government’s activities” and that Europe did not have it in mind “to replace the United States”, the world public duly regarded this move as a European claim to play an independent role in Asian affairs. “We have an obligation to play a stronger role internationally, and will be more engaged in this globalized world,” Javier Solana, the EU foreign policy chief, said in Seoul. In answer to one journalist’s question as to the source of the new sense of international commitment, Mr. Solana replied without hesitation, “We Europeans, after the enlargement of our union, will have four times the population of Japan and twice the population of the United States. We have an obligation to get involved,” thus making an emphasis on the firm foundation under many recent EU initiatives.⁷

This newly-acquired feeling of “an obligation to get involved” in the world affairs most clearly manifested itself also in Europe’s firm backing of the antiterrorist war the U.S. has been waging in Afghanistan after the tragic events of September 11, 2001. The official stance of Britain as well as of other European members of the antiterrorist coalition forged by U.S. President George W. Bush that autumn mirrored an explosion of sympathy and generosity toward America from European people after the appalling terrorist attacks on New York and Washington. While “all of the Europeans really do see the EU as an alternative to the U.S.,” noted W. Pfaff in an analytical article in November 2001, “they don’t see why this kind of Europe

can't be a partner at the same time that it is an alternative.”⁸ Thus, the fact that Europe favors the idea of a multipolar world and may see a menace in the American hegemony or in the U.S.-inspired economic globalization does not exclude a trans-Atlantic political accord and solidarity in a time of trouble. However, simultaneously it dictates the EU a proactive international course of its own aimed at surviving in a precarious economic and geo-strategic environment, which marks the beginning of the 21st century.

In our view, this feeling of international “obligation” may also help towards explaining the roots of unusual boldness and adventurous spirit inherent in the behavior of European companies nowadays, particularly in their endeavors to gather new strength through “intra-continental” mergers, as well as in their acquisition sprees worldwide.

Single Market and Membership Expansion Strengthen Europe's Position

In fact, it was as early as after the Nice Summit in December 2000, which aimed to negotiate institutional changes that would enable further expansion of the European Union, and the official signing of the Treaty of Nice by foreign ministers of the 15 current EU members in February 2001, that a new situation began to emerge in the global economic and political system.

Signs of a weakening U.S. economy coincided with the realization that soon the European Union will encompass up to 28 countries, with a population of about half a billion people. Even now, with 15 members, the EU has an integrated economy roughly the same size as that of the U.S., a large pool of unused labor, and globally-competitive companies in many industrial sectors including telecommunications. Internet use in European households surged last year and is approaching U.S. levels, according to a report for the EU Commission.⁹ In total, 13 countries have so far lined up

to apply for EU membership, including Cyprus, Malta and Turkey, as well as ten “transitional”, or “post-socialist”, societies of Central and Eastern Europe. Since 1997, all contenders have been divided into two tiers, and at least the six countries of the first tier (the Czech Republic, Hungary, Poland, Estonia, Slovenia and Cyprus) may count with joining the EU sometime in 2003-2005.

These recent developments have demanded major alterations in the institutional structure of the EU, and some such alterations have been adopted after hot, sometimes exhausting, debates at the Nice Summit. For example, the EU leaders agreed on new voting procedures in the Council of Ministers to give the most populous countries (Germany, France, Britain, Italy and Spain) greater say; in many new fields majority voting has been introduced (instead of unanimity principle inherent in the original Treaty of Rome); the number of the European Commission members has been enhanced from 20 to 27.¹⁰ Stating that the Treaty of Nice contained “solid mechanisms, capable of welcoming the candidates,” Romano Prodi, the head of the European Commission, concluded his speech at the signing ceremony with the following significant words: “Now we need a great ambition for Europe, a debate on the ultimate destiny of the union.”¹¹

However, the vision of this “ultimate destiny” by the leaders of individual countries varies considerably. For example, German Chancellor Gerhard Schroeder recently floated a plan to overhaul the European Union’s powers and institutions. It involves, among other things, a proposal to “upgrade” the European Commission into a “full-blown central government” patterned on the current federal system in Germany itself, while the present Council of Ministers should be “metamorphosed into a kind of upper parliamentary chamber, along the lines of the German Bundestag.”¹² The German initiative has ignited a hot public debate over the kind of Europe that people want to live in and how it should be organized.

Naturally, from enthusiasts for “more Europe” continent-wide came approving cries. In contrast, from official France there has been “embarrassed silence” because “this is not the sort of superstate Europe that the French, anymore than the British, really want at all,” stated David Howell, a British politician well-known for his comments on European politics.¹³

Howell’s own opinion is that “self-organization and constant social adaptation may be far better principles” for Europe going through a new round of expansion and restructuring than “organizing” its future from above. He continues by citing modern social scientists who believe that “economies and societies are not machines, and neither is a grouping or entity as diverse as Europe.” Howell notes that “a shoal of fish swims and maneuvers, or a flock of birds flies, without apparent control point, either internal or external,” and “the same principles of self-organization apply to human affairs.” And his conclusion is that “German ideas may be sincerely held and nobly motivated, but they belong to a past age, as do all the plans and passions of other Europe-builders and conceivers of grand designs for European order.”

In this connection, it seems worthwhile to point out that business realignment efforts foreseeing an active use of M&A to achieve corporate goals represent exactly the kind of “self-organization and constant social adaptation” moves by private economic entities that Europe allegedly needs nowadays.

The relationship “between the Europe of the EU and the Europe of sovereign states” will probably remain a source of tension between the partners, points out Glyn Ford, an English politician involved in international political affairs. However, “the superstate myth was firmly put down in Nice”, he believes, when French President Jaques Chirac referred to the “United Europe of States” as a far cry from the “United States of Europe” advocated by Winston Churchill in 1946.¹⁴ In May 2001, in a public speech

111

which broke a prolonged silence by official Paris regarding German demands for a federal EU and for a transformation of its Council of Ministers into something like a chamber of the European Parliament, French Prime Minister Lionel Jospin stressed that “France, like other European nations, could not accept such a statute nor such a concept of what a federation is.”¹⁵ Finally, according to William Pfaff, “neither the German nor the French version of the European future articulates what the other members want. The eventual shape of the union will come out of a 15-nation debate,” - an opinion which we are very much inclined to share.¹⁶

It has been before this background that the political and economic rivalry between America and Europe has been adopting new dimensions lately. As former U.S. Ambassador to France, Felix Rohatyn, has been quoted as saying, the current European attitude is that “only the weakening of America can be good for them.”¹⁷

According to W. Pfaff, defenders of the Bush administration reproach America’s critics in official Europe for not having “borne the burdens of Cold War leadership and now seem to be falling under what Washington regards as the subversive and irresponsible influence of France, or to be allying themselves with Russian and Chinese demands for an international system of plural powers.” This well-known political analyst believes that the EU and the U.S. “have no choice today than to agree to disagree.” Even more important seems to be Pfaff’s thesis, according to which “those who don’t like how the U.S. is conducting itself will have to look after themselves just as aggressively as the U.S. looks after itself.”¹⁸ In other words, in this modern rivalry the European superstate will likely show the same egotism and aggressiveness which has been emblematic for modern America in its conduct in international economic policies.

It looks like some widely read columnists, analyzing the “unpleasant

turn” the relations between the United States and “what, to Washington, may seem the rest of the world” (W. Pfaff) have taken, are inclined to give their moral backing to the new U.S. president and not to his European opponents. For example, after elaborating on “a very bad patch” U.S.-European relations were going through in the spring of 2000, David Howell concluded his analysis with the notion that “the U.S. remains by far the mightiest, brightest and most dynamic democracy on Earth, and nothing is going to alter that.”¹⁹ In still another (and more recent) article, after outlining the main issues breeding contradictions between the Atlantic allies, Howell stated that, in the perception of the Bush administration, a united Europe is perhaps not such a good idea after all. “A supportive “pillar” of an Atlantic partnership is one thing,” says Howell in his interpretation of America’s logic, “but a rival bloc, or superpower, in Europe is quite another.”²⁰

On the other hand, articles abound where Europe is regarded as a kind of new hope (in contrast to the U.S. and, especially, to the disappointing performance by Japan) and a vital new pole of growth for the world economy. With the newest changes in the European Union in mind, the Financial Times wrote in the spring of 2001 that the dynamic European economy “should be well placed to become the engine of global growth.”²¹ According to William Drozdiak of the Washington Post, “there is no doubt whatsoever that the final period of the last century was the American decade. But there is now a good chance that the first decade of this century will turn out to be European.”²² The challenge in the next century is “to consolidate the post-Cold War order on the European continent,” pointed out Lionel Barber of Financial Times, adding that the EU must also develop “a more adult relationship with the United States,” requiring Europe, among other goals, to become “a more self-reliant partner in matters of defense and security.”²³

Let us point out that, in Europe, the year 2000 began with the

Lisbon summit where the EU leaders made a vow “to boldly embrace the digital revolution to make Europe the world’s most advanced economy by 2010, and create 20 million more jobs.” Although they did not want to say so explicitly, “their ultimate goal is for the European Union to rival – or beat – the United States in the unfolding “new economy” symbolized by the Internet,” commented the Japan Times.²⁴

Aiming to achieve this goal, EU governments pledged to adopt “as rapidly as possible” the necessary acts to create the legal framework for e-commerce, copyright and related protections of intellectual property, and electronic money. Also, borrowing a page from the United States, the EU leaders envisioned steps to open venture-capital markets and make it easier for small businesses to exploit e-commerce. It was argued that “the wealth created by the new economy can be harnessed to create new and better jobs, curb poverty and pay pensions to a graying population.” According to another source, EU leaders pledged “to implement scores of reforms to achieve an Internet-driven economy within three years.”²⁵

Before the end of 2000, it was announced that the European Commission would shortly unveil its plans for Framework 6, its high-tech R&D program for the period 2002-2006. This would outline spending priorities for a total budget of at least 12-14 billion euros over that same period. According to Glyn Ford, “Framework 6 must be a source of innovation directed along current technological trajectories to underpin Europe and Britain’s contributions to nanotechnology, biosciences, informatics and aeronautics.”²⁶ These bold initiatives have found a further development when, during a summit in Stockholm (March 2001), the EU announced its intention “to speed up reforms to make the bloc the world’s most competitive economy,” Ford believes.²⁷

About 50 years ago the Schuman Plan paved the way to European integration. “Schuman’s insight was to put the coal and steel industries, in

his day central to a country's economy and capacity to make war, under common control," stressed Ove Juul Jorgensen, Head of the Delegation of the European Commission in Japan. "Today, he would be concerned about aerospace and telecommunications."²⁸ That is why the EU must "press ahead with the pursuit of the so-called new economy, pro-competition and making full use of information technology."

Recent undertakings focusing on economic modernization can create an impression that the European Union marches forward in harmonious unity, with members sharing one clear vision of Europe's bright future. This is far from true, however, as we have pointed out before, and this sad fact has been underlined by quite different reactions that the fiery debates and, especially, the controversial and not always satisfactory decisions reached in Nice have provoked in individual EU countries.

It seems sufficient to quote some headlines which have appeared prior to and immediately following the Nice meeting, such as "EU summit ends with small states pitted against large," by Peter Norman and Michael Smith of the Financial Times Service (an October 2000 article highlighting the preparative meeting in Biarritz), or "Obstacles to real unity remain", by Andre Fontaine, former editor in chief of *Le Monde*, or "A naked power grab in Nice", by Paul Taylor, Reuter's diplomatic editor, or "Franco-German engine needs a mechanic", by Emma Thomasson, also of Reuter's.²⁹ Emblematic was, for example, the comment of disenchanted Luxembourg Prime Minister Jean-Claude Juncker: "I've rarely had such an impression that Europe remains a fragile enterprise and the continent still holds unsuspected complexities."³⁰

The EU has accumulated economic power comparable to that of the U.S., pointed out William Pfaff in still another recent article, while "the world's most important problems today are primarily political and economic in dimension" (i.e., not military – *A.B.*). However, he remains reserved

about the potential of this economic power, pointing out the “inherent difficulty of formulating policy for an alliance of equals,” and that “the flaw in Europe’s ambitions is that not all the Europeans are ambitious.”³¹

Be that as it may, nowadays political and economic processes in Europe attract world attention perhaps as never before. In spite of all the difficulties and contradictions, “a new union that is continent-wide and has broader powers is taking form,” as Romano Prodi, President of the European Commission stressed in the special edition of the Japan Times published under the heading “EU in the New Century.”³² “For one thing, we have learned that developing a Europe-wide market and European-scale enterprises can make us more competitive,” noted O.J. Jorgensen characteristically in his quoted contribution in the Japan Times on the occasion of the Schuman Day.³³

The Thorny Path of European Corporate Consolidation

Lately, the forces of commercial logic have been driving European integration at an even faster pace than the politicians. It is the private capital with its pursuit of business size and scope that has contributed in a major way to further uniting the states of Europe on the micro-level of regional economy in the last several years. It continues to do so.

Lionel Barber of Financial Times called 1999 “the year of pan-European industrial and financial consolidation, from electricity and power generation, to telecommunications and banking.”³⁴

It is worthwhile to notice that up until recently a good deal of merger activity in Europe typically took place inside national borders. However, “the price transparency created by the euro, the free flow of capital and the growth of the Internet will provoke radical rather than evolutionary change in Europe’s capital markets,” Barber believes.

Euro-zone M&A activity rose more than 600 percent between 1995 and 1999, against a 250 percent increase in the U.S. During the same period, the value of mergers and acquisitions involving European firms reached \$707 billion (1999), up from \$327 billion in 1998 and just \$96 billion in 1995.³⁵ According to some estimates, in the first half of 1999, no fewer than 30 major merger operations have been carried out in the 15 countries of the European Union, eight deals in France alone. However, Europeans, and particularly French industrials and bankers, have not always been satisfied with the results of their M&A activity, while many other merger schemes have met formidable obstacles and remained on paper only.

As a vivid example of Europe's efforts to achieve consolidation and to enhance its positions in global competition, a tripartite megamerger among aluminum companies, Canada's Alcan Aluminum Ltd., the second-largest producer of light metal in the world, France's Pechiney SA and Switzerland's Al Suisse Lonza Group (Algroup), can serve well. This giant transaction has been worked out in haste, literally overnight after the current industry leader, Alcoa, opened merger negotiations with Reynolds Metals, thus taking the initiative in inter-industry regrouping. The new giant, well-placed to fight for the No.1 spot globally, would have been under Canadian control, since Alcan's shareholders would have 44 percent of the capital as against 29 percent for Pechiney's. Each partner has stressed "the friendly climate in which the agreement was struck," but the planned disappearance of Pechiney's name, which "used to be a household name in France," could be interpreted "as a new loss of independence - or at the very least as fresh evidence of the growing globalization trend." "Highly symbolic of this three-way wedding is the absence of any European dimension," pointed out Andre Fontaine, former editor in chief of Le Monde: "The main operator was Canadian and the third partner comes

from the only Western European nation that has always refused to join the European buildup.”³⁶

However, European Union regulators have blocked the deal, at least as far as Pechiney was concerned. Their objections have forced the biggest French producer “to temporary withdraw plans to join the giant aluminum group.”³⁷ This does not mean that Pechiney has lost all hope to join the Canadian-Swiss group under the aegis of Alcan, but it has been forced to wait. The European Commission has said that any new proposal for the three-way deal would have to be “substantially different” from the one it has effectively stopped on the pretext that it would create “dominant positions in a number of markets.”

Time will show if it was really such a big loss for France. Not only has the decision of the European Commission prevented a monopoly situation in this vital industry, but it has also prevented France from losing face and allowed it to keep its major aluminum producer under national control. Together with Michelin, Pechiney represents a famous “brand name” of the country’s heavy industry.

In the past, EU antitrust officials have not been especially strict while contemplating M&A schemes concerning European companies. During the 1990s, the EU Competition Commissioner only blocked 11 merger applications. However, in 2000, current commissioner Mario Monti not only ruined the Pechiney deal, but also halted Volvo’s quest to become the world’s No. 2 big-truck maker, saying that Volvo’s merger with rival Swedish truck-maker Scania would have left the new company with an “unacceptable dominant position in the Scandinavian market.” Industry analysts have seen in these unusual moves “a clear sign from Brussels that it will not routinely rubber-stamp a growing wave of big-scale corporate mergers in Europe.”³⁸

In this connection, let us recall that about a year later Mario Monti

also ruined the megamerger plan involving music operations of Britain's EMI Group and Germany's Bertelsmann. This harsh decision, which coincided in time with a negative reaction of the U.S. antitrust authorities, marked the third time that EMI has been jilted in its efforts to forge an alliance with a competitor thus preventing the formation of the world's second-largest music conglomerate with global sales of about \$10 billion.³⁹

The very character and failure of the three-way aluminum tieup, as well as the inability of EMI to push its own merger plans through the controlling organs, can illustrate both the weaknesses inherent in the M&A policies of even the leading European firms and the formidable obstacles they sometimes meet in their endeavors.

However, we believe that, in general terms, Europe's economic potential has been growing substantially as of lately. Although in the 1990s the U.S. economy went through the strongest boom in its history, while Europe lagged behind and faced serious structural problems, its industrial leaders have accumulated new might and are now better equipped to face the challenges of global competition. As an indirect confirmation of this conclusion we may quote changes in the list of the world's biggest ten and 15 non-financial corporations in the course of the last decade. As early as in 1993 there was just one European company among the world's Top Ten, in 1995 the number of European firms has grown to three, while the number of U.S. companies remained unchanged (five), and the Japanese share went down by half (from four to two companies). In the same short period, the number of European firms among the world's Top Fifteen has reached six (on a par with the U.S.), while the number of Japanese companies fell to just three.⁴⁰ And among the Global 500, there are, according to the most recent evaluation, more than 150 Europe-based TNC (the exact number we don't know, as some European firms have been placed under the heading "All others"), as against 172 U.S.-based corporations and 112 Japan-

based ones.⁴¹

These leaders represent, so to speak, only the tip of the iceberg, however, while at its base are hundreds and thousands of less extraordinary companies. Nowadays, striving to enhance the business scale and scope is characteristic for firms of practically any size and profile, and we have discovered this trend in all countries of the Triad. Moreover, mergers breed mergers, acquisitions provoke still new acquisitions, so that the realignment process spreads in a manner of an avalanche. This is even more so the case in financial than in industrial sector.

Let us remember the resolute, although failed, attempt of Deutsche Bank to take over Dresdner Bank. It shook Europe immediately after the megamerger of Citicorp and Travelers Group went through in the U.S., and just preceded a whole series of successful and failed megadeals in the banking system of Japan.

In early April 2000, Dresdner Bank stunned investors and the press by calling off the megadeal with arch-rival Deutsche Bank in a dramatic end to weeks of management strife that finally had ruined plans aimed at creating “a global powerhouse” with more than \$1.2 trillion in assets.⁴² Dresdner’s management board had decided unanimously to abandon the \$30 billion merger and accused Deutsche of “undermining the deal with its insistence to sell off all or part of Dresdner investment banking unit Dresdner Kleinwort Benson.”⁴³ The collapse, one of the biggest U-turns in European corporate history, marked a setback for financial restructuring in Germany. The country is generally regarded as “overbanked” and lags behind its European neighbors in terms of consolidation. Had it succeeded, the merger between Deutsche and Dresdner would have “marked the end of the old European universal bank model,” according to Roy Smith and Ingo Walter of Financial Times.⁴⁴ It was expected that after consolidation the new bank would be able to split into three separate, mutually reinforc-

ing businesses. Particularly, the retail banking business, merged under the name Bank 24, would be transferred to Allianz (the famous German insurer traditionally cooperating with Deutsche Bank and with a significant capital stake in Dresdner), while renewed Deutsche Bank would be in a strong position to turn itself into a fully competitive, specialized investment bank.

However, even before the flop, the deal had been condemned by some analysts – in all probability, though not necessarily correctly - as being ill-conceived and failing to offer enough cost savings. They also pointed out (more rightly) that the collapse of the deal with Deutsche left Dresdner vulnerable to further takeover bids and predicted new developments in the situation. These followed in a year when Allianz announced its own plans to take over Dresdner.⁴⁵ Only time will show whether that was really the original business scheme of Allianz, Europe's largest insurer, or whether Deutsche Bank had simply invented a new roundabout maneuver to achieve its goal of consolidating the banking industry through an indirect tieup with its major local rival.

French banking groups have not been very lucky with their realignment plans as well. The country's leading financial players, Banque National de Paris (BNP) and Societe General (SG), devised a merger scheme which also involved the smaller bank Paribas. However, they couldn't come to a compromise and join forces. The result was disappointing for all parties concerned. After dramatic developments, BNP managed to buy a major capital stake in Paribas as a result of a hostile bid which crossed SG's own plans to take over Paribas and alienated it from its eventual partner. For Paribas, the story was over: one of the most famous French banks had been absorbed by a stronger rival. For BNP, the victory was a partial one, because SG escaped capital tieup and was bracing for a new war in which it seemed "ready to open its gates to a "white knight" in the form of a foreign partner."⁴⁶ During this battle which involved active

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trade in BNP's and SG's shares on the stock market, significant parts of the equity capital of both French lenders landed in the safes of overseas rivals, such as major British and U.S. pension funds. As a result it is quite probable that SG will end its independent life as a subsidiary of a foreign financial group, as has already happened to one of the most profitable middle-sized banks in the country, Credit Commercial de France, which was bought by the mighty British financial group HSBC Holdings in a hot rivalry with the largest Dutch group ING.⁴⁷

Let recall that realignment in another French economic sector, oil refining, has also taken the form of a prolonged battle between the two major players and has been full of hostile bids and tricky equity-swap schemes. It ended with young and strong TotalFina establishing control over its main national rival, Elf Acquitaine, in an attempt to accumulate power to oppose what Charles de Gaulle used to call "the Anglo-Saxon quasi-monopoly on oil" (as quoted by A. Fontaine).

As an example of a more harmonious consolidation attempt, in the banking sector, which was aimed at establishing "a European cooperative bank", we can mention "the strategic Europe-wide alliance" between Dutch cooperative Rabobank and its German counterpart DG Bank, which they entered just when their French rivals failed to reach agreement.⁴⁸

Also, a much higher degree of mutual tolerance and understanding of competitive challenges on the integrated European marketplace has been shown by British insurance firms CGU, the U.K.'s biggest composite insurer, and Norwich Union, the life insurer. The proposed enlarged group emerging from this all-share, no-premium merger would be on a par with the current national leader, Prudential, in market capitalization and would rank fifth in Europe, just behind Axa of France, Allianz of Germany, Italy's Generali and Zurich of Switzerland.⁴⁹

In Spain, banking consolidation has also proceeded very smoothly.

Since 1997, at least three major mergers have significantly contributed to sectoral consolidation: first, Banco de Vizcaya and Banco de Bilbao formed Banco Bilbao Vizcaya (BBV); then Banco Central and Banco Hispanoamericano merged to form Banco Central Hispanoamericano (BCH); and finally (October 1999), BBV took over Argentaria, a whole banking system formerly state-owned and officially known under the name Corporation Bancaria De Espana, to create Spain's largest banking group.⁵⁰

Restructuring of the European economy makes mergers and acquisitions in the U.S. especially attractive to European firms which are looking not only for a foothold in the world's richest market but also for state-of-the-art solutions and know-how, especially in the high-tech fields of information technology (IT) and the Internet. European telecommunications companies, as one example, simply cannot count on success without forming technological partnerships with U.S. firms. "Internet innovation flows from the U.S. to Europe, so to be on top of Europe three, four years from now, we have to be in the U.S. today," stressed Olivier Houssin, executive vice president of Alcatel, an aggressive French telecom equipment making firm.⁵¹

It is with zest that French chief executive officers (CEOs) such as Serge Tchuruk of the same Alcatel, LVMH's Bernard Arnault and Vivendi's Jean-Marie Mesier wade into the global merger wars, confident that their companies "can compete with the best the world can throw at them."⁵² "Over the last two years some \$200 billion has flowed from Europe to the United States," Karen Lowry Miller wrote in a Special Edition of Newsweek. "A big chunk of that comes from direct investment by European firms – the Vivendis and Deutsche Telecoms – who want to bulk up in the United States in order to become global players."⁵³

As a vivid example of recent European M&A activity on the U.S. soil, albeit without final success, has been the bold bid by Alcatel to

acquire (for \$32-34 billion in stock) their North American rival, Lucent Technologies, with its fiber-optic cable business. It was widely discussed in the media, and Alcatel's chances were regarded as high because it already completed at least two major acquisitions in North America (of DCS Communications, a U.S. optical equipment maker, in 1998, and of Canada's Newbridge Networks, in 2000).⁵⁴ The only potential threat to the megadeal seemed to come from the controllers in Washington, because Lucent and its research arm, Bell Labs, do "highly sensitive work" for the U.S. government, and cooperate particularly closely with U.S. intelligence agencies on systems of electronic eavesdropping, encryption and other sensitive matters.⁵⁵ The ultimate failure of the deal, however, has been caused by another major factor: corporate ambitions. As Lucent's bosses explained to the press, they had to walk away when it became clear that Alcatel viewed the deal as a takeover, rather than "a merger of equals". "Lucent was not for sale – they wanted a strategic partnership," an industry analyst said.⁵⁶ In the aftermath of the mess, however, Alcatel might find partial consolation in the fact that at the very moment the deal with Lucent collapsed, Alcatel managed to conclude a cross-licensing agreement on optical fiber technologies with Sumitomo Electric Industries Ltd., a major supplier of optical fibers.⁵⁷

As an example of the international expansion of German firms, with the important by-product of an increased foothold in the U.S. market, the recent purchase by E.On A.G. of its British rival, Powergen PLC, deserves mentioning. E. On, which itself was formed in 1999 through the merger of rivals Veba A.G. and Viag A.G., paid about \$14 billion to become the world's second-largest power company and to penetrate the U.S. electricity market, moving ahead of the likes of American Power Co. and RWE A.G., its main domestic rival, and coming close to Electricite de France, the world's No. 1. A bridgehead in the U.S. was formed through Kentucky-

based LG&E Energy Corp. which Powergen acquired in December 2000 for \$3.2 billion. Also, E. On A.G. is said to be interested in expanding into Spain, Italy and France.⁵⁸

Another, and quite different, example of new German interests in the U.S., has been the deal in which Deutsche Post, the German government-owned postal and logistics group, took over DHL Worldwide Express, the U.S. parcel delivery company, adding to the controversy in Washington over German acquisitions of American companies by what can be called “state-owned monopolies”. Let us remember that, in 2000, several prominent U.S. congressmen moved to block Deutsche Telekom’s proposed purchase of U.S. wireless provider VoiceStream.⁵⁹

Also, Japan attracts the attention of a lot of European major capital groups. In fiscal 1999, France became the top foreign investor in Japan with nearly \$6.7 billion (an increase of about 50 times over 1998). Accounting for nearly one-third of overall current investment by foreign firms, it passed the United States as the largest source of foreign investment funds.⁶⁰ That year, 49 French companies opened shop in Tokyo and elsewhere compared to 36 in 1998. The consequences have begun to be felt. Thus, Renault’s megadeal with ailing Nissan has practically disbanded the Japanese automakers long-held ties with a number of its group’s auto part suppliers. “The Renault-Nissan agreement was presented two years ago as an ‘alliance of the weak’. This proved wrong,” a Renault spokesman said in an official statement (and was right in his judgement, as time has shown).⁶¹ In another instance, and despite dwindling consumer spending in Japan, Carrefour strode into Japan, taking advantage of falling asset prices. So did Sephora, a cosmetic shop chain operator, and Saint-Gobain group, a global player in high-performance industrial materials such as glass, ceramics and plastics. French investment group Artemis had its Japanese subsidiary buy Aoba Life Insurance Co., which took over the

operations of the failed Nissan Mutual Life Insurance Co.; likewise, AXA, a Paris-based insurance group that operates in 60 countries, virtually acquired Nippon Dantai Life Insurance Co. in 2000. And from transactions which have been announced in 2001, major tieups between Usinor and Nippon Steel Corp., and also between French building materials group Lafarge and Aso Cement Co. spring to mind.

Overall, there are over 3,000 European businesses operating in Japan, according to Isabelle Hupperts, chairperson of European Business Community in Japan (EBC), a trade-policy arm of the European National Chambers of Commerce in Japan, playing an important role in representing European companies in this country. However, she also pointed out that Japan “remains one of the most regulated and costly markets in which to operate,” and that “anticompetitive practice persists largely because the current Japanese legal framework limits the ability of private plaintiffs to bring lawsuits based on the Antimonopoly Law,” a situation the EBC would like to see rectified.⁶²

After nearly six years of hectic negotiations, Japan and the 15-nation European Union have signed a landmark agreement to mutually recognize the results of safety and other tests for some industrial products. This mutual recognition agreement, or MRA, covers four product categories: electrical goods, chemical products, pharmaceuticals and telecommunications peripheral devices (partially the same circle of products as a similar Japan’s MRA with the U.S.).⁶³ In our view, this move will not only greatly enhance trade opportunities but also open new vistas for European FDI and joint ventures in Japan, especially for chemical and pharmaceutical firms.

The last two years were also rich in examples of M&A operations European companies performed in other regions of world economy, i.e., outside the Triad. One of the most characteristic was the acquisition by

Royal Dutch-Shell in partnership with British Gas of control over Companhia de Gas de Sao Paulo, Brazil's largest gas distribution system, for about \$1 billion. The other bidders were identified as U.S. energy company Enron Corp., a group led by Italy's AGip and a consortium made up of Argentina's YPF and Spain's Iberdrola.⁶⁴

In 2001, DB Investments (DBI), a consortium led by Anglo-American PLC and the South Africa's wealthy Oppenheimer family, made a \$16.7 billion takeover bid on the diamond giant De Beers.⁶⁵ The aim of this "extremely attractive offer" in cash and shares (later further improved to \$18.7 billion) was not only to deliver "a significant premium to the historic value of De Beers," but also to unwind a series of cross-shareholdings between Anglo American and De Beers. Thus, the deal was designed to bring a welcome organizational change and "see the rough diamond giant delisted and taken private."⁶⁶

And yet, the best opportunities for European companies to form harmonious relationships leading to bold M&A schemes are still usually found, so to speak, on their native continent and in their home countries. So it was when the two French retail chains, Carrefour and Promodes, merged in 1999, or when French energy firm Framatome and its German counterpart Siemens integrated their nuclear operations.⁶⁷

However, sometimes the hottest battles are also played out at home, as when each of the major rivals, Banque Nationale de Paris and Societe General, attempted to regroup and gain new strength for itself, but had to be content with a "draw", or when tiny Olivetti fought against giant Deutsche Telekom, an epic we shall mention a bit later.

As a general conclusion, we can state that striving for business scale and business diversification has represented motivations for M&A activities in Europe that are not less typical than anywhere else. Thus, according to J.D. Daniels and L.H. Radebaugh, "many firms in Europe have

attempted to grow through merger and acquisition in order to achieve the size necessary to compete in the larger market.”⁶⁸ Most probably, both these major motivations are here to stay. As Klaus Diderichs, J.P. Morgan’s co-head of global M&A pointed out, “Europe over the next five years is going to catch up a 15-year deficit and be a market as big as the U.S.”⁶⁹ Also, J.H. Dunning in his well-known book underlined that “Europe 1992”, or the integration initiatives adopted by the 12 member states in the closing years of the 1980s (Single European Act) and the opening years of the 1990s (Treaty of Maastricht), were “provoking a major new catalyst to foreign investors.”⁷⁰

Of course, such catalytic influence was felt, first of all, by European companies. By the early 1990s, both the number and value of mergers and acquisitions in Europe with participation of exclusively local firms have grown substantially. “Not all of the annual growth of intra-European A&Ms of 67.4 percent per year can be attributed to European integration, but part of it most certainly can,” pointed out J.H. Dunning. Among the reasons for a M&A boom in Europe he quoted the four following factors (formulated by I. Walter in 1992): “(a) an overdue need for industrial restructuring in Europe, (b) the availability of financial resources, (c) the transfer to Europe of much of the A&M know how that accumulated in the U.S. during the 1980s and (d) the increasing liberalization of capital markets in Europe (itself an essential element of European integration).”⁷¹ It seems obvious that during the 1990s the influence of these four factors remained strong, or perhaps has even grown.

First, though in general terms it is still lagging behind the U.S. in industrial restructuring, Europe has shown progress in some concrete directions. This, in its turn, gave impetus both to intra-European M&A and to attempts of major European firms to enhance their positions worldwide. For example, European aerospace companies have achieved a substantial

consolidation of their power and were successfully bracing for global competition with their U.S. counterparts. European automakers, particularly Daimler, Volkswagen and Renault, have made claims for leadership on a virtually global scale. In such vital sector as wireless telecommunications Europe has an important advantage, at least before the U.S., in the form of a common system of standards (the well-known GSM). As for the United States, there are at least five different systems of mobile telephony in North America, and this hampers both the development of new gadgets and the creation of transcontinental telecommunications networks.⁷² “Europe’s industrial consolidation has only just begun, with Italy, France and Germany at the forefront of activity,” noted French analyst Vincent Boland. “Nor is there anything on the horizon to suggest the M&A activity will slow down.”⁷³ “There is a race on in Europe to determine who will be the European leader in particular sectors,” Boland quoted a financial expert.

Second, Europe had and still has a lot of funds to finance M&A on a grand scale. Not only have the financial resources of many European companies significantly grown but a special, very profitable, variety of banking business has been developed which aims at satisfying “borrowers with large appetites.”⁷⁴ For example, the megadeal in which well-known but not very rich Italian firm Olivetti has performed a stunning takeover of state-run Telecom Italia for 33 billion euro represented “Europe’s largest leveraged bid” financed by banks “awash with cash and willing to lend it to the Italian telecommunications group.” In still another case, giant funds (18 billion euro in the form of a “fully underwritten loan”) were made available to the French group Elf Aquitaine by a consortium which included Goldman Sachs, Morgan Stanley Dean Witter, Banque Nationale de Paris and Credit Agricole with an aim to help it acquire control over TotalFina (it was not the fault of the creditors that the deal turned another way

101

round, and now TotalFina controls its main local rival).

According to V. Boland, “all-shares offers can be difficult across Europe’s borders.” So, cash deals reign supreme, while the so-called syndicated lending also becomes fashionable because it can enhance banks’ returns on capital and help “leverage their client relationships considerably.” In the U.S., the secondary loan market is very active and this is now becoming the case in Europe. Barclays Capital estimated that trading volumes in the European secondary market reached \$30 billion in 1998 compared to \$3 billion in 1992. Most probably, these differences between European and U.S. practice of arranging M&A operations can, at least partly, be explained by the fact that Europe didn’t live through such a strong, prolonged and steady rise of stock prices as did America where a high-flying equity market created giant “new wealth,” thus opening much bigger opportunities to acquire companies with the help of what could be called fictitious capital.

The third factor concerns the ever-wider use by European companies of the rich experience accumulated by U.S. corporations in arranging and funding M&A activities. In our view, its current validity can also be indirectly confirmed by some significant facts. In the list of the world’s top 15 M&A advisers (who usually deal as middlemen and often also participate in funding particular M&A transactions) European firms are steadily moving up. To be sure, so far they can hardly be regarded as equals to and on a par with such U.S. titans as Goldman Sachs, Morgan Stanley Dean Witter, or Merrill Lynch, which permanently occupy the top three spots on the list and annually deal in sums exceeding half a trillion dollars each.

○ However, jumps made in one year (1998) by European firms such as Lazard Houses (from 13th to 7th position) and Rothschild Group (from 15th to 10th position) give ground to the belief that they are gaining power quickly, and may already be regarded “amid a pack that includes Lehman

Brothers, Donaldson, Lufkin & Jenrette, J.P. Morgan and Salomon.”⁷⁵

Last but not least, we shall dwell on some vital issues connected with intra-European integration and the liberalization of capital markets. Basically, our goal will be to try and sum up the consequences the formidable scheme of introducing a single European currency and thus creating a complete economic and monetary union (EMU) has already had for corporate consolidation in the regional framework and is, most probably, going to have in the near future.

Introduction of the Euro as Major Factor Boosting M&A Activities

“The decision in itself (adopted as early as in 1990) to make a transition to a single currency has initially given a mighty push toward further concentration and centralization of capital in EC countries and brought about multiple M&A both within nations and between companies of two or three countries,” pointed out S.I. Dolgov.⁷⁶

Many scholars, politicians and journalists agree that the prolonged process of EU transition to a single currency which has been successfully under way for some years now exercises a strong impetus on M&A activities, first of all in the area of the European Union itself. In January 2000, in the framework of the annual World Economic Forum in Davos, Time magazine arranged a round table discussion on this very subject in which such well-known economic analysts as Robert Hormats, vice chairman of Goldman Sachs International, and Horst Siebert, president of the Kiel Institute of World Economics, have taken part. It is emblematic that practically all the participants in the roundtable mentioned the role of Europe’s financial restructuring in the context of the modern M&A wave in the European and global economy. “The advent of the euro last year has set off a boom in cross-border megamergers in Europe, up by 87% from 1998 to

'99 alone,” pointed out R. Hormats; “last year more than 60% of all world’s mergers valued at \$1 billion or more involved European companies.”⁷⁷ Shortly before that, the Financial Times notably stated that “more than half of the 25 largest bids announced in the first eight months did not involve a U.S. company on either side,” having at least one European merger partner instead.⁷⁸

According to Karen Lowry Miller, financial analyst of Newsweek, throughout Europe “banks are bulking up in their home markets to prepare for the day when Europe becomes a single banking market – and cross-border deals become routine.”⁷⁹

By U.S. standards, European financial markets are too small, insufficiently competitive and excessively segmented. To remedy these defects, the European Commission has put forward a financial-services action plan. It was adopted in 1999, and its deadline for implementation is 2005. “If Europe is to match U.S. economic performance, it must create equally dynamic financial markets,” wrote the Financial Times. “With the birth of the euro, a step was taken in that direction.”⁸⁰ The growing economic and monetary union (EMU) creates a principally new situation because “common industries, grown across member-state boundaries in a manner that would make it impossible to tear them asunder, have imposed the need for common economic management and a common currency,” pointed out G. Ford.⁸¹

Even before the full implementation of the euro plan, as much as 80 percent of total European commercial exchange was done within the euro zone that encompasses 12 countries. It made Europe relatively immune to any economic slowdowns in the United States or in Asia. The European Commission estimated that the 12 countries now earn little more than 2 percent of their national incomes from exports to the United States. As early as in 1999, the then 11-countries-strong Euroland was already “a rel-

actively closed economy, exporting to the outside world only about 10 percent of what it produces,” denoted D. Howell. “So the external exchange rate with the dollar (and the pound and the yen) is something about which it can afford to be quite cavalier,” he believes.⁸²

Summing up the results of the first year when the so-called “Phase A” of the euro plan was implemented, Martin Wolf of the Financial Times Service came to the conclusion that “the launch of the euro has gone well.” In his opinion, the combination of an easy monetary policy and a weak exchange rate has helped the euro-zone economy.⁸³ More important, however, than the short-run impact of a stimulative monetary situation is the eventual longer run effect of the euro. Its protagonists argue that the single currency “should act as a turbocharger for the engine of the single market.” An intriguing recent piece of research by Andrew Rose of the Haas School of Business at the University of California in Berkley gives strong support for this thesis. Looking at a host of existing currency unions, he concludes that “two countries which share the same currency trade three times as much as they would with different currencies.”⁸⁴

However, by far not all is so calm and rosy in Euroland. Being good for export expansion, the short-term weakness of the euro in combination with long-term weakness of gross fixed-capital formation (which fell from 23 to 19 percent of GDP over the 1990s) stimulated a massive net outflow of direct and portfolio investment. Between January and October 1999, it amounted to 149 billion euros, more than offsetting the current account surplus of 38 billion euro. Since the autumn of 2000, after a long period of stable growth, the amount of cash in circulation across Western Europe suddenly began to shrink – to the amazement of the European Central Bank (Eurofed). By January 2001, money was flowing out of the euro-zone at the alarming rate of \$40 billion a month, among other consequences contributing to the strength of the U.S. dollar.⁸⁵ Many economists believe

that all this may be somehow related to the upcoming giant operation of the introduction of the euro in physical terms, which Eurofed's chief economist, Otmar Issing, describes as "the greatest peacetime logistical effort in Europe's history." More than 50,000 trucks will be mobilized to haul in mountains of old money from banks, stores and automated teller machines and to distribute 16 billion euro notes and 56 billion euro coins – "enough paper bills to circle the equator 50 times and enough metal to replace 35 Eiffel Towers."⁸⁶ Long before this major operation many retailers and consumer firms have expressed fear that their shops and cash machines will run out of notes. Thus, a severe shortage of euros in circulation was expected, despite Eurofed's assurance that it would issue enough bills and coins to secure a smooth transition across the 12 countries, contributing to financial worries and stimulating further capital flight out of the euro-zone.⁸⁷

Such worries were, however, of transient nature and were expected to pass away sometime in early 2002. As for the weaknesses of Europe's investment processes, they are, unfortunately, of a more fixed nature. According to Lawrence Summers, U.S. Treasury secretary, "fixed investment in the euro-area has risen only 10 percent in real terms since 1991. In the U.S. it has nearly doubled." Moreover, on average "it takes 12 times longer to set up a new business in Europe than in the U.S., and four times the cost."⁸⁸

However, in the context of this analysis, the aforementioned visible weaknesses of the European business environment only underline once more the exclusively high role M&A should play and are actually playing in regional industrial restructuring policies. As for the realization of the "Phase B" of the euro plan which would put into practice the circulation of the single currency instead of 12 national monetary units, it was expected to give a further mighty push to corporate realignment processes in the

regional framework. “European politicians will soon conclude that, like Frankenstein, they have created a monster,” wrote M. Wolf. “Yet this monster should do much good, as it tears down the euro-zone’s outmoded structures.”

The introduction of the euro will be most probably remembered as a virtual turning point in European economic history. All three continental Great Powers are already feeling its impact and nourish their own hopes and ambitions in connection with it. “Among the French elite,” wrote Philippe Ries, the Tokyo Bureau chief for Agence France-Presse, “the single currency has been seen as a means to share the monetary power in Europe with the almighty Bundesbank and at the same time as an opportunity to challenge the hegemony of the U.S. dollar.”⁸⁹ However, Germany itself is not very happy with the “ruinous state” of its public finances, according to such an authority as Hans Eichel, the country’s Finance Minister, who believes that Germany’s status as an economic model is “finished.”⁹⁰ Also, there are “real doubts that the *Mittelstand* – the small- and medium-size companies, often family owned, which were the lifeblood of the postwar miracle – can compete successfully in a globalized economy,” denotes Michael Elliot of the Newsweek, who quoted the aforementioned pessimistic judgement of the German Finance Minister. This makes corporate realignment and financial restructuring a very special and topical issue for German business. M. Elliot points out also that France “continues to meet the challenge of globalization with mergers and downsizing of some old-line companies” and that the Frenchmen are in many ways better suited to do so “precisely because their own sense of identity and pride in their institutions is so strong.”

In this Elliot sees a great difference with Britain where “euro-skepticism” remains rather strong, pointing out “you cannot lead Europe from a nation that is not sure whether it really wants to be European.”⁹¹ However,

the ruling Labor Party, which has predictably swept the June 2001 election in a landslide, more than once assured that it supports entering the single European currency “in principle” if certain economic conditions are met and “if the move is backed in a referendum.”⁹² “Britain should and will join the single currency,” wrote Hugh Cortazzi, a former British carrier diplomat, “The question in my mind is not “if” but “when”. Timing is crucial.”⁹³ In his opinion, “weakness of the euro may have been beneficial to EU economies,” while “the pound is overvalued against the euro by between 20 percent and 30 percent.”

On the eve of the election, the Financial Times wrote that “Britain must clarify its position on the euro. On this issue, constructive engagement is the policy that advances the national interest.”⁹⁴ G. Ford echoes this sentiment by stating that “on balance...there is a clear case for membership.”⁹⁵ If, for any reason, Britain were to remain outside the euro, its natural advantages of language, labor and location would be overwhelmed by the uncontrolled risks of currency fluctuations, he believes. As British-based companies attempt to participate in an increasingly dynamic European market, they will be penalized by the costs of hedging against exchange-rate risk.

Sometimes, euro-skeptics make the point that “Britain exports more than other EU countries to North America and the rest of the world.”⁹⁶ However, there is not much ground for such statements if we consider that Britain exports over 78 percent of its goods to the EU, compared with 14.9 percent to the whole of the North American Free Trade Area.⁹⁷ Also, British firms already successfully participate in corporate realignment processes on a continental scale, while the British public gradually gets accustomed to local firms landing under foreign control. The mood changes visibly. “There are no grounds for believing that nationally-owned companies are more reliable employers than foreign ones,” pointed

out Geoffrey Owen, a former editor of the Financial Times. “Not all foreign takeovers of British firms have worked out well, but the UK economy as a whole has benefited enormously from its openness to foreign investment.”⁹⁸

However, perhaps the deep British skepticism concerning the introduction of the euro is based not so much on economic fears than on political ones. “It is rooted in a suspicion that joining a single currency is a huge step toward European political union – a goal associated with being bossed around by Brussels bureaucrats and centralizers, and therefore thoroughly disliked,” stressed D. Howell in an article commenting on Labor Party’s victory in parliamentary election in June 2001.⁹⁹ This opinion received strong backing from George Will, representing the Washington Post Writers Group who believes that “Europe” remains a geographical, not political or even cultural entity.”¹⁰⁰

It looks like the current advanced stage in European integration is not only making its impact on M&A in Europe but also serving as a kind of mighty catalyst for international investment activity worldwide. “The formation of a single economic space in the EU framework, resulting from a single currency, would bring (and is already bringing) enhanced competition in this space, first of all competition between European companies, but also with the participation of American, Japanese and other companies from outside Europe,” points out S.I. Dolgov.¹⁰¹ It is true that the global competition, and the consolidation of corporate power in Europe provoked by it, is making the Japanese move on as perhaps never before. “We’re likely to see more megamergers and more countries involved,” predicted R.Hormats in the aforementioned round-table discussion in Davos, “because the Asians haven’t gotten into the game yet, and they have to.”¹⁰²

It is worthwhile to notice that, as early as in 1998, Nikko Securities Co., while giving its consent to merge with the U.S. giant, Travelers Group,

urged its senior partner “to integrate an European ally into their alliance” as well, just in case the euro “turns out to be a strong currency,” Nikko President Masashi Kaneko said in an interview with Kyodo News.¹⁰³

“The coming of the single currency has turned Euroland into a paradise for takeover artists,” wrote Richard Ernsberger Jr. in a Newsweek article. “There are too many companies in a region that, its borders fading, is getting smaller. Big conglomerates want to slim down to fighting weight, so they’re choosing key businesses and selling off the rest.”¹⁰⁴

“Europe is 10 years behind America when it comes to consolidating its industries,” added Steven Galante, editor of the U.S. newsletter *Private Equity Analyst*. A favorable combination of factors attracts to European equity markets mighty U.S. leveraged-buyout (LBO) firms, like Hicks, Muse, Tate & Furst, Clayton Dubilier, or Kohlberg Kravis Roberts (KKR), and British LBO firms are equally enthusiastic. The idea is to “add value” to the target company, by cutting costs and engineering expansion, and then sell out at a hefty profit after a few years. According to Hugh Briggs, a vice president of Salomon Smith Barney in London, “there are more players, larger buyout funds, and everyone is looking to do bigger deals.”¹⁰⁵ Thus, in 1997-1998, U.S. and European private-equity firms have raised some \$40 billion for such quasi-speculative buyouts.

It is believed in Europe that, by combining their national capital markets through the adoption of a single currency, euro-zone governments hoped that their companies would enjoy cheaper finance. However, trying to avoid increased “investor scrutiny of business activities, an inevitable consequence of more active capital markets,” a growing number of European companies are choosing “to bypass traditional funding from the banks and go straight to the markets.”¹⁰⁶

Preparations for 2002 when the euro-zone must be completed through the physical introduction of the single currency provoked changes

also in the organization structures of European stock markets. During the last three years, difficult negotiations are under way concerning an eventual “grand alliance of Europe’s eight leading bourses”, i.e., London, Frankfurt, Amsterdam, Brussels, Madrid, Milan and even Zurich, to create “a jointly owned pan-European platform” to trade the shares of Europe’s top 300 companies.¹⁰⁷ In March 2000, the French, Belgian and Dutch bourses have adopted a pioneer role by creating a joint system Euronext, the biggest stock market in the euro-zone coming immediately after the London Stock Exchange and ahead of Frankfurt. “It is not a link. It is not an alliance. It’s a merger, a full merger,” Jean-Francois Theodore, head of the Paris exchange, told a news conference in London.¹⁰⁸ Although Euronext is ready to adopt new members, many are regarding its creation “as a snub”, if not to London than at least to Deutsche Boerse.¹⁰⁹

In the summer of 2000, it was announced that Deutsche Boerse started negotiations with London Stock Exchange to create a kind of counterbalance to Euronext through a tieup and its eventual overgrowing into full merger.¹¹⁰ However, nothing came out of those negotiations, and in 2001 Deutsche Boerse has undertaken another attempt to gain new muscle and “go global” by teaming up with Dow Jones Indexes and two major investment banks, Goldman Sachs and Morgan Stanley. The idea was to launch what it called Global Markets Concept and thus to offer electronic trading in 200 U.S. blue chips, as a means to overcome the weakness of Frankfurt’s stock market where interest in U.S. shares has been “confined to small investors.”¹¹¹ This approach was in visible contrast with the course of the London Stock Exchange which, under a new chief executive, Clara Furse, was said to be striving to achieve better understanding with other local exchanges and clearing houses in order “to learn to speak the same language” and “to get their acts together”. According to Christopher Fildes, a columnist of the Spectator, “that, and not some flashy merger or

alliance across borders, is what will count in asserting and sustaining their competitive position in the world.”¹¹²

The introduction of the euro promised enhanced competition in Europe and worldwide, particularly on financial and stock markets, demanding from them greater flexibility and efficiency in servicing M&A megadeals. Thomas Middlehoff, the chief executive of Bertelsmann A.G., believes the euro’s emergence is finally awakening governments and enterprises to the need to embrace new ways of thinking and restructure their economies to compete globally. “For a long time Europe didn’t get the message. It wanted to preserve the old industrial hierarchy that was rapidly becoming obsolete,” he pointed out. “Now they are starting to realize that speed, not size, is what counts in the Internet age.”¹¹³ This opinion is shared by Michael Meyer, a successful “dotcom” venture capitalist, who likes to say that “the race will go to the fast, not the big.”¹¹⁴

“Opponents of globalization vastly underestimate the impact of competition,” denotes previously quoted Geoffrey Owen. “One of the striking features of today’s corporate scene is that dominant companies stay at the top for a much shorter period than in the past. According to one estimate, the annual turnover among the 500 largest companies in the U.S. is running at nearly 10 percent, implying an average stay within that group of no more than ten years. The days when a company could dominate its market for 50 years, as General Motors did in the U.S. from the 1920s to the 1970s, are over.”¹¹⁵

Owen also sites the case of IBM that nearly went under in the early 1990s, “mainly because it was too slow to respond to younger and smaller competitors.” It is only in such a particular context, however, that we find it possible to agree with the British author when he makes the far-reaching conclusion: “There is no connection between size and power.”¹¹⁶

“It has long been clear that the euro would force mergers and cause

capital to flow to those who can use it best,” wrote Christopher Dickey,¹¹⁷ echoed by Karen Lowry Miller (whose words we also have quoted before): “Europe is in play. As advertised, the launch of the euro has created a huge single capital market that’s eager to fund even the most audacious plans.”¹¹⁸

Some Examples of Intra-Regional Corporate Realignment

Much of the hype surrounding megamergers, the unprecedented sharpness of rivalry concerning attractive acquisition goals and the contradictory role of governments in influencing its outcome, all these can be well illustrated by returning to such a dynamic, modern, high-tech industry as mass media and telecommunications.

The first round in the struggle for a dominating position in this vital sector, which began in the winter of 1999 and lasted until late in the spring of the following year, has been christened by journalists as the “David-and-Goliath takeover battle.”¹¹⁹ The relatively small Italian company Olivetti, previously better known as a manufacturer of typewriters and other office equipment, undertook a “hostile” bid (i.e., a bid neither solicited nor negotiated beforehand) to take over the former state monopoly Telecom Italia SA, which was more than five times Olivetti’s size. Olivetti had to play the role of David when Goliath, German quasi-state monopoly Deutsche Telekom A.G. (with a government capital stake of about 74 percent) entered the scene. What could have become “the biggest merger in history”, outstripping a \$76.7 billion agreed merger between oil titans Exxon and Mobil and creating the world’s second-largest telecommunications company, was planned as a stock-swap deal between the two former state monopolies with issuing shares of a new company and placing control over it on the German side. To complete the deal, the approval of Telecom

Italia shareholders was necessary, as well as the approval of U.S. and European regulators and Italian and German governments (with the latter ready to give up its own big capital stake).¹²⁰ In case of a successful completion, a new continental telecom group would have emerged, worth between \$180 and \$200 billion and with 100 million customers in Europe, Latin America and Asia. “The United States will be the next area of expansion,” Telecom Italia chief executive, Franco Bernabe, said at a news conference.¹²¹

However, fate had decided otherwise. The Italian shareholders preferred to accept the \$33 billion euro collected by Olivetti on the credit market, while the acquirer decided to be satisfied with 51.01 percent stake in Italy’s No. 1 phone company tendered in the offer (instead of minimum 67 percent it intended to get).¹²² The stock market reacted positively to this unexpected all-Italian compromise which effectively ditched the Deutsche Telekom merger scheme, although Olivetti Managing Director, Roberto Colaninno, assured that “he is open to discussing international alliances, especially in Europe, and has never ruled out talking to Deutsche Telekom sometime in the future.”¹²³ As for the latter, it has found consolation in acquiring a 50.1 stake in DaimlerChrysler’s communications software unit, Debis Systemhaus GmbH, thus creating what was called “Europe’s second-largest information technology company” and gaining access to a global data transmission network.¹²⁴ The central figure in the second round of dramatic events in Europe’s telecommunications industry (autumn 1999 – spring 2000) was Germany’s Mannesmann A.G. A former “nuts-and-bolts engineering firm”, Mannesmann has become a big player in the telecom business as of late. It was precisely the control of its electronic division that was at stake in the severe battle that Britain’s Vodafone group waged on the continent. It all started with Mannesmann’s purchase of Britain’s third-largest mobile phone operator, Orange PLC. In a 30.6 billion

euro deal, the German firm offered a 22 percent premium over the current Orange's share price on the stock market to its major shareholder, Hong Kong-based Hutchison-Whampoa, whose agreement thus set a precedent for other shareholders.¹²⁵ This way, Mannesmann snatched Orange from under the nose of Britain's main phone manufacturer, Vodafone, which half a year earlier managed to purchase its main U.S. rival, AirTouch, thus creating a major new international group, VodafoneAirTouch, with the obvious intention to be second to none.

Post factum, the analysts regarded this move by Mannesmann as a "first strike" against the enhanced Vodafone group, or at least as "a defensive play to ward off a bid" Mannesmann feared even then, because Vodafone's continental ambitions were obvious enough.¹²⁶ In fact, in November 1999, VodafoneAirTouch made a generous shares-swap offer to Mannesmann using what can be called a "friendly approach", and then has repeatedly risen the stake in favor of Mannesmann's shareholders to make it more attractive.¹²⁷ However, when it became absolutely clear that no compromise leading to a friendly merger was in view, Vodafone switched to "hostile" tactics by making the German shareholders a highly overpriced offer of 266 euro for each Mannesmann share, 68.8 percent above the current market quotations, bypassing its supervisory board.¹²⁸

German Chancellor G. Schroeder accused the Britons making the biggest (\$124 billion) hostile bid in history, indicating alarm about its impact on the German corporate culture. In response, Tony Blair made clear that shareholder power should be respected by governments. "We live in a European market today where European companies are taking over other European companies, are taking over British companies, and vice versa," he said at an international meeting of center-left politicians. "That's the European market."¹²⁹ Looking for a way out, Mannesmann contemplated a tieup with British telecom group Energis, while Vodafone flirt-

ed with French group Vivendi, mulling over a strategic alliance with Mannesmann's main continental rival.¹³⁰

At last, in February 2000, the epic came to an end. By bringing the overall price to \$190 billion, VodafoneAirTouch managed to overcome the opposition, and a "hostile" bid became "friendly" again because Mannesmann's supervisory board had given its OK to the megadeal.¹³¹ So, the only thing missing was a decision in the antimonopoly investigation of Mannesmann's purchase of Orange, which proceeded under the aegis of the European Commission.¹³² By summer 2000, the European Commission came to the conclusion that the Vodafone-Mannesmann deal may be approved on condition that Orange PLC would be sold to a third party acceptable in an antimonopoly context. France Telecom was acknowledged as one such company, so it acquired Orange which at once entered merger negotiations with Dutch firm KPN Mobile and its Finnish counterpart Sonera.¹³³

The main conclusion that analysts have drawn from this epoch-making megadeal has been that this takeover "will transform the way investors look at continental Europe" because the "risks of political interference" have diminished, so that nowadays "hostile takeovers of euro-zone companies are possible."¹³⁴ That the age of the European taboo on hostile takeovers has ended was pointed out by Russian analyst S.I. Dolgov as early as 1998. "A wave of U.S.-style M&A is growing in Europe," he wrote in his aforementioned book, "i.e., a wave of unsolicited takeovers, when the will of companies' boards of directors is being ignored and a buying up of stakes necessary for control at a price attractive to shareholders (higher than the stock market price) is taking place."¹³⁵

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European corporate consolidation in the mass media and telecommunications sector is going on, and in many cases is spilling over into other regions and also attracting foreign players, first of all from the U.S. and

Japan. After the Vodafone-Mannesmann saga, it was Vivendi's purchase of Seagram's entertainment and musical business in North America that attracted maximum attention (we have already mentioned this French-Canadian megadeal in one of our previous articles). Here we can add that, half a year later, the new international group, Vivendi Universal, acquired the San Diego-based online operator MP3.com in a \$372 million cash-and-stock deal. According to Vivendi Universal's spokesman, this "friendly" transaction would "strongly reinforce" the media giant in striving to become "the leading online music service provider."¹³⁶

Yet, it is Vodafone Group, the world's biggest mobile operator, that has been "on a major acquisition spree since mid-1999 to build market share and a user base before launching high-speed, third-generation mobile Internet, video and music services."¹³⁷ Going on with major acquisitions, Vodafone agreed to help British Communications (BT) in fighting its giant debt burden (about \$43 billion) by taking over its stakes in Japan Telecom, Japan's third-largest telecommunications company (after NTT DoCoMo and KDDI), and in its mobile operator J-Phone. As a result, Vodafone's stake in Japan Telecom rose from 25 to 45 percent and its holding in J-Phone from 26 percent to 46 percent, while BT has lost "its hard-won foothold in Japan."¹³⁸ The main motivations behind Vodafone's moves were connected, first, with its belief that the Japanese market "is key to the future of wireless technology," second, with Vodafone's frustration over "J-Phone's failure to compete more aggressively with DoCoMo,"¹³⁹ and third, with the fact that "the average revenue of users in Japan is twice that in Europe."¹⁴⁰ In contrast, for British Communications this sale was a part of its plans for an "effective breakup," foreseeing also a "complete demerger" of BT Wireless, the group's mobile phone division, giving over its share in Concert, a "joint venture aimed at multinational customers in the U.S. and Europe," to its partner, the United states' AT&T, and a

“record-busting multibillion-pound issue” of new shares (for an equivalent of \$8.4 billion) in an effort to reduce its “crippling debt burden.”¹⁴¹

In an analytical article in the *Japan Times*, William Drozdiak of the *Washington Post* wrote about “Europe’s ‘madness’ with mobility” and pointed out that it “justly boasts of supremacy in at least one major high-tech industry.”¹⁴² He characterizes Vodafone, Nokia and Ericsson as the world’s three top players and underlines the fact that more than 60 percent of the people living in the European Union own cellular phones, compared with about 40 percent in the United States. This attracts to Europe, among many others, corporations such as American Online, one of the U.S. leaders in the field. Analyzing the difficulties and complex problems which accompany AOL’s attempts to penetrate European markets, Alec Klein, another *Washington Post* analyst, pointed out that AOL “needs friends on a continent where its chief competitors aren’t Microsoft Corp., and Walt Disney Co., but former state monopolies and telecommunications giants with home-field advantage: DT, British Telecommunications PLC and France Telecom SA.” In his opinion, if AOL is to prevail in Europe, it must succeed in Germany as its first practical goal. For this, AOL must find good local partners to team up with for making inroads, like it is already doing in the Asia-Pacific region, “a tough market including Japan, China and Australia.”¹⁴³

Before concluding this short survey, let us briefly turn to the hot battle that rages on in such exotic spheres of European business as luxury goods and fashion houses. Perhaps the most formidable power in this mostly Franco-Italian combat is international conglomerate Moët Hennessy Luis Vuitton (LVMH) headed by the dynamic Frenchman Bernard Arnault. Trading worldwide in such luxury products as Dom Perignon champagne, Hennessy cognac and Christian Dior perfume and neckties, to say nothing of Vuitton bags so popular with Japanese ladies, LVMH is on a prolonged

acquisition spree both at home and in neighboring Italy. In recent years, it has acquired such famous brands as Givenchy, Fendi, Marc Jacobs, Christian Lacroix and Kenzo. One of its last purchases was the famed U.S. fashion house Donna Karan International Inc.¹⁴⁴ However, things have not always gone LVMH's way. By the beginning of 1999, LVMH already owned a 34.4 percent stake in Gucci Group, the glamorous Italian fashion house, and obviously decided to take it under full control. So, Mr. Arnault made a very generous hostile takeover bid for Gucci, only days after another French firm, Pinault Printemps Redoute (PPR), announced its intention to acquire a decisive 40 percent stake in the Italian fashion house.¹⁴⁵ A hot legal battle began, with Dutch courts playing a major role because Gucci is registered in the Netherlands. In the end, LVMH lost, while the deal between PPR and Gucci has been brought to a successful conclusion.

However, failure has not discouraged Mr. Arnault. Some months following the failed Gucci bid, LVMH purchased for 1.15 billion Swiss francs the long-established Swiss firm, the exclusive watch-maker Tag Heuer.¹⁴⁶ Recently LVMH also started to think of what it could do "to get involved in technology" (B. Arnault) and decided "to stake out a position in Internet companies" by acquiring several Web sites in Europe and North America and getting engaged in e-commerce in the luxury goods markets. In the space of six weeks, LVMH and the British retailer Kingfisher created a free Internet service provider called LibertySurf, which immediately landed "among the 50 largest French market caps" after its initial public offering (IPO) on the Paris Bourse.¹⁴⁷ Finally, LVMH concluded an agreement with the fabled De Beers diamond company on a joint project to sell fine jewelry at boutiques in the world's shopping capitals.¹⁴⁸

According to Nobori Ikeuchi, industry analyst at Yano Research Institute, a Tokyo-based market research firm, the luxury goods market has major segments characterized by the three key words – prestige, com-

fort and trend, and that “only top brands in each category may stand a chance of surviving intensifying competition.”¹⁴⁹ It is also worthwhile to notice that an active realignment of U.S. and European luxury apparel and leather goods makers has apparently prompted them to seek higher profitability in Japan, the world’s major consumer market for such imports. Luis Vuitton, which enjoys the lion’s share in Japan’s import fashion market, has opened worldwide what it calls “global stores,” with floor space of more than 500 sq. meters in each. Hermes, Prada and others also established new outlets in Japan. For example, Benetton, the Italian-based apparel group with a sales network covering 120 countries, has more than 200 shops in Japan, of which 15 are directly managed by its subsidiary Benetton Japan. At the end of 2000, Italy’s Prada fashion house offered for sale up to 30 percent of its shares on the open market with the hope of raising money “to resume its acquisition spree” and to deeper penetrate Japanese market.¹⁵⁰

As early as in spring 1999, editorial writers of the Japan Times pointed out that the wave of megamergers was rumbling across the European continent “with profound consequences for traditional ways of doing business in “the Old World.”¹⁵¹ The euro was designed to create economies of scale. A single European currency zone was expected to maximize the reach of companies looking to exploit the new supermarket by rationalizing planning and production costs. And to make use of all this, European companies should be ready to give up some of their prejudices, including, as a vivid example, the French dread of “Wild West capitalism” with its hostile takeovers, and learn to work out “the new euro-logic.”

From Scandinavia to the Mediterranean, bigger was looking better, and something like a new European M&A culture was being developed accordingly. A system of standards and common rules was gradually emerging, while the state and supranational controlling organs were also

working out more unified approaches to analyzing individual cross-border megadeals. “Because the takeover game is still so new, the authorities are making some of the rules as they go along,” pointed out Karen Lowry Miller who a bit later concluded: “There are still plenty of obstacles to true cross-border consolidation. Europe is still a bunch of countries, after all. There no single takeover code, stock exchange or body of corporate law.”¹⁵² Not only do European business people not pay due attention to the concept of shareholder value, “there is no such thing as a European company” yet, she believes. “Europe’s practices of corporate governance are improving, but progress is slow,” remarked the Financial Times. However, “until there is a more wholehearted commitment to shareholder culture, companies will be wary of launching takeover bids and investors will regard equities in Europe as less attractive than those in more shareholder-oriented countries such as the United States.”¹⁵³

Some changes and new trends in corporate organization and business practices can be brought about exactly by megamergers, such as Daimler-Chrysler or AOL-Time Warner. For example, after the megadeal between Deutsche Bank and Dresdner Bank had been announced (and before it finally failed), analysts praised the merger as “a bold step, as it marks the end of the old European universal bank model.”¹⁵⁴ It was expected that the new megabank “would be able to split itself into three separate, reinforced businesses,” a major change that would put “great pressure” on other universals such as UBS and Credit Suisse, or ABN Amro and ING.

Some European governments are finding it hard to adapt. “For every country that takes a step forward, another takes a step back,” pointed out the Financial Times. For example, the German government recently “got cold feet” about a proposed Europe-wide takeover code. It withdrew its support from the part of the plan that would have obliged companies to consult shareholders before seeking to fend off takeover bids. However,

according to the Financial Times analysts, “without this element, the code is useless.”¹⁵⁵ It was only logical that soon after the European Parliament rejected the draft directive that would have set common rules for corporate takeovers in the EU area including the provision aimed at protecting minority shareholders interests.¹⁵⁶

Facing cross-border megamerger mania, European antitrust authorities tend more and more to take a firmer stance in regard to takeover bids which could make an impact on continental markets. For example, in the summer of 2001, the European Commission “had set intolerable conditions” for its approval of General Electric Co.’s \$45 billion bid to buy Honeywell International on the pretext that this combination “would produce package deals for commercial jet airplanes that would annihilate the competition and lead to much higher prices.”¹⁵⁷ During his first ever visit to Europe, U.S. President George W. Bush expressed his annoyance with the situation when a deal officially approved in the U.S. and Canada was being blocked by the European regulators.¹⁵⁸ When the deadline for the final decision loomed close, European Competition Commissioner Mario Monti confirmed his office’s negative position to the merger, setting a far-reaching precedent in international M&A practices.¹⁵⁹

As an unexpected byproduct, this incident provoked a public debate in the EU on eventual reforms of its antitrust regulations, including whether to bring European standards for mergers more in line with those in America. Unlike the U.S. system, the EU merger rules adopted in 1989 provide for a strict timetable in reviewing mergers, and competition commissioner Mario Monti believes “the time has come for them to be adapted.”¹⁶⁰

According to the same logic, after 30 years of debate, a law to allow companies to operate throughout the EU area as a single legal entity cleared its final hurdles and was adopted in October 2001. However, the

creation of the first European companies, to be known by their Latin name of “Societas Europaea,” was still at least two years off, because the statute, formally signed by ministers from the 15 governments meeting in Luxembourg, does not go into force until 2004. But then companies will be able to expand across the EU without the cost and red tape of setting up a network of subsidiaries. The statute will be available both for firms from different countries that are merging or want to set up a joint holding company, and for firms with affiliates in other countries that want to reorganize.¹⁶¹ In contrast, the long-awaited adoption of a cheaper and more flexible single patenting system has been postponed amid fierce bickering over the supremacy of national languages, which is blocking the creation of a EU-wide patent granting investors legal protection in all 15 member nations.¹⁶²

Such are, in rough features, some motivations, issues and consequences of the current wave of M&A megadeals in the European economy which in many cases mirror the specifics of this not-so-vast but extremely multicultural continent enveloped in processes of regional economic integration and constantly feeling the breath of their overseas rivals.

(Series to be continued)

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