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Volvo-Scania: Mergers and Competition Policy

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Setting

On 5 March 2000, Leif Johansson, the CEO of Volvo, sat in his Stockholm office deep in thought. He had just received a list of concessions demanded by the negotiating team of the European Commission (EC) for obtaining competition clearance for Volvo's acquisition of Scania. How should he respond?

Volvo had begun talks with Investor, Scania's owner, about a merger of Volvo's Truck division and Scania in late 1998, but the parties were unable to agree on Scania's value. Between January and August of the following year, Volvo built up a large stake in Scania. This culminated on 6 August 1999 when Volvo announced that it had acquired all of Investor's shares in Scania, giving it 49.3% of the stock and 69.6% control. It made an offer to acquire all remaining shares at SEK 315, valuing Scania at SEK 60.7 billion.

A dossier seeking regulatory clearance was filed with the EU Competition Commission in late September. In October, on the basis of its initial one-month review, the Commission decided a detailed four-month probe was required. By February it was clear that the Commission was in favour of blocking the merger, on the grounds that it would give Volvo/Scania a virtual monopoly in Sweden, and a clearly dominant position in the Nordic region. Thus, the Commission demanded a wide range of concessions in return for approval.

This put Johansson in a difficult position. He wanted Scania badly: the merger would create a major player in the truck industry, specialising in the heavy truck segment and offered enormous scope for cost savings, given the overlap between the companies. But the concessions demanded by the EC would make it almost impossible for the merger to succeed.

The Truck Industry

Basic Economics

On the supply side, truck manufacturing is a highly capital intensive industry driven by the need to achieve scale economies on high capital costs: higher volume often means higher returns. High fixed cost activities include manufacturing, component purchasing, research and development and the warehousing and distribution of spare parts.

On the demand side, the industry is highly cyclical, correlated with trends in industrial output and with investments in plant and machinery. These trends are complicated in the short term by replacement patterns. In the longer term, demand for trucks is dependent on the health of the road haulage industry, which is determined by overall levels of economic activity and by the competitiveness of road haulage compared to other transport modes. Over the previous two decades, the increase in road haulage at the expense of rail and inland waterways boosted demand for trucks. This trend was expected to continue.

Current Trends

As with the automotive industry in general, the most significant trend was consolidation. Driven by the three pressures of *globalisation*, *intensifying competition* and *technological innovation*, firms sought to increase their scale and reduce their unit costs. For the truck industry in particular, consolidation had taken place in two ways. On the one hand, a number of firms attempted to gain scale and scope by partnering and joint ventures. Volvo itself, for example, entered into a partnership with Mitsubishi in the late 1990s. On the other hand, there have been a number of major M&A deals, including:

- Late 1996 PACCAR's purchase of the bankrupt Netherlands-based DAF trucks for US$800 million
- Mid 1998 PACCAR's purchase of Leyland Trucks
- Mid 1999 Daimler-Benz's merger with Chrysler.

Globalisation

Globalisation was driven by two factors. On a general level, it was fuelled by falling tariff and non-tariff barriers. More specifically in relation to the truck industry, it was drawn along by the trend of convergence. Historically the industry was shaped by differing regional standards, i.e., different operating environments and different truck manufacturing requirements. However, as these significant differences began to diminish, multi-region truck manufacturers emerged, eager to exploit synergies and cut costs, principally in truck design and component purchasing.

For example RVI and its US subsidiary, Mack, began to standardize their products in 1999, despite the fact that the European and US operating environments were traditionally seen as very different. This move was intended to facilitate larger volume procurement of parts and lower costs and was based on the belief that customer requirements were converging. In the longer term this trend opened the way for more vigorous competition on a global scale.

Intensifying Competition

Competition had intensified steadily over the previous years, particularly in the highly competitive region of Western Europe, which suffered from some of the lowest margins in the world. On the supply side this was fed by over-capacity, itself a result of two factors. First, the cost structure of the business, with its high level of fixed and sunk costs made firms reluctant to retire plants. Second, rosy growth projections led to a significant increase in capacity in the mid 1990s though the Asian Crisis later in the decade made it clear that the need for capacities had been overstated. On the demand side competition was driven by the emergence of mega transport firms with significant buying clout.

Innovation

Manufacturers faced an increasing need to innovate to meet customer and regulatory demands. Cost reduction, expressed in euros per tonne-km, was customers' main concern and this pushed manufacturers to squeeze additional productivity gains from the products by improvements to the drive-train. Increasingly, as part of efforts to reduce fuel consumption, rear axles, gearboxes and retarders were electronically connected to the engine. As electronic management spread to include brakes, suspension and cruise control, a 'clever' power-train offered the possibility of a 10-15% fuel saving for the operator. It was thus the focus of intense development work.

Regulators also played a role in stimulating innovation by imposing ever-tighter engine emission requirements. This drove up development costs and forced manufacturers to work closely with suppliers of key systems, such as engines and transmissions.

Segments

Market Size and Definitions

Trucks fall within the broad category of commercial vehicles, defined as all vehicles above 3.5 tonnes in gross vehicle weight (GVW). In Western Europe some 500,000 commercial vehicles, including trucks, large vans and buses existed in 1999. Trucks are usually defined as those commercial vehicles other than buses over 5-6 tonnes GVW. In Western Europe these amounted to 250,000 units in 1999.

Trucks are usually further divided into light trucks (between 5-6 tonnes and 15-16 tonnes) and heavy trucks (above 15-16 tonnes). In Western Europe in 1999 the majority of trucks (190,000 units) were in the latter segment and of these around 90,000 were articulated units, made up of two or more distinct parts coupled together.

Volvo Trucks' Position

History

Volvo manufactured its first truck in 1928; just a year after the company began life as a carmaker. The company quickly grew into the largest industrial group in the Nordic region, manufacturing a wide range of products for the transportation industry, from cars, trucks and buses to construction equipment and marine, industrial and aircraft engines. The truck business prospered as first, trucks became longer and heavier and then, in the 1950s, as diesel-engines were developed.

The late 1970s brought weaker economic conditions and fears of overcapacity in the automotive industry. In the light of this the boards of Volvo and Saab-Scania planned a merger, though disagreements between the boards prevented its completion. This unsuccessful merger set the two companies on a path of increasing and often hard-fought rivalry. Competition between the companies was particularly intense in trucks, as both truck divisions concentrated on the heavy end of the industry. Furthermore this competition spilled out beyond the Nordic region as the companies increasingly sought to build global presence in sales, manufacturing and after-sales networks, competing head-to-head in Europe, South America, and parts of Asia-Pacific and Africa.

Throughout the 1970s and 1980s, Volvo's concentration at the heavy end of the market yielded rich rewards as the demand for heavy trucks (>15 tonnes GVW) increased. In 1981, Volvo acquired the truck operations of the heavily indebted White Motor Corporation. In 1985, Volvo introduced a range of medium trucks with mixed results, as Mercedes-Benz and other competitors with more experience in building light trucks effectively defended their market share.

The early 1990s were reminiscent of the late 1970s, with industry conditions and Volvo's financial performance worsening, leading to questions about the viability of Volvo as an independent entity. A gradually deepening relationship with Renault, lead to discussions about a merger or alliance with the objective of creating synergies in design and purchasing, especially in commercial vehicles. Volvo's shareholders however, concerned about the compatibility of the two corporate cultures, rejected the deal. Volvo went on to establish a relationship with Mitsubishi in the passenger car area. At the end of 1998, Volvo employed some 80,000 people, of which 23,000 worked in Volvo Trucks.

Operating margins in Volvo Trucks business in the late 1990s were slim, ranging from 2.0% to 9.9% in the five years to the end of 1999. However even these were superior to the 1.3% to 4.7% performance of the Cars business, as Table 1 shows. Moreover, in 1998, the Daimler/Chrysler merger intensified the need to find a strategic partner, as the development of global players with huge scale advantages threatened to leave small players such as Volvo sidelined. Volvo therefore participated in the late 1990s' merry-go-round of bilateral discussions in the industry, but eventually decided to sell Volvo Cars and use the resulting capital to reinforce the core commercial vehicle and other operations. Volvo Cars was sold to Ford in early 1999 for US$6.45 billion.

Volvo Trucks: Strategy for the Future

Following the sale of Volvo Cars, Volvo's strategy for the Trucks business appeared to have four elements:

- Grow by acquisition, using the cash generated by the sale;
- Develop non-European markets, with a long-term target of 20% market share in the US and aggressive investment in South America;
- Extend the product range to include lighter weight medium trucks (6 – 15 tonnes GVW), initially by distributing Mitsubishi's Cantor through Volvo dealerships and then by developing a new range in partnership with Mitsubishi; and
- Reduce the historically high level of vertical integration to concentrate on core activities.

As Volvo examined the options for acquisitions for its Trucks business, its eye fell on its old favourite, Scania. The reasons for choosing Scania were threefold:

- Like Volvo, Scania was a specialist in the heavy truck segment and together they would have the economies of scale and experience needed to specialise successfully;
- Integration would generate large potential cost savings due to an exceptional degree of product and geographical overlap;
- Scania's European focus would leave open the possibility of further American or Asian acquisitions, with Navistar often cited in the US.

Volvo's share by volume of the global truck market in 1999 was 5.5%, making it the fifth largest player in the market (see Table 2). At this level it was less than a third of the size of the market leader, Daimler Chrysler. Scania's share was 3.2%, making it the eighth largest player. A merger of Volvo and Scania would bring their combined share to 8.7% and create the third largest manufacturer in the world.

Cost savings of SEK 4 – 5 billion. (US$500 – 600 million) annually were rumoured. These would come most importantly from component procurement (bearings, glass, etc.), but also from R&D, engines, transmissions and parts distribution and inventory systems, as well as shared design templates. However the sales and marketing functions would remain independent, with co-operation in areas like parts warehousing and distribution hidden from customers.

Given the overlap and level of cost-savings anticipated, the merger would be expected to lead to substantial plant closures and job losses. It was not known how the Swedish government would view these.

Table 1: Profitability of Volvo Group by Division

	1995	1996	1997	1998	1999
Trucks					
Sales	51,027	44,275	50,840	63,837	69,549
Operating Income	5,073	878	1,812	3,061	3,905
Operating Margin	*9.9%*	*2.0%*	*3.6%*	*4.8%*	*5.6%*
Cars					
Sales	83,340	83,589	96,453	103,798	N/A
Operating Income	1,089	1,498	4,510	3,808	N/A
Operating Margin	1.3%	1.8%	4.7%	3.7%	N/A
Other activities					
Sales	37,144	28,196	36,332	45,301	55,470
Operating Income	2,862	1,334	2,096	2,141	2,821
Operating Margin	7.7%	4.7%	5.8%	4.7%	5.1%
Volvo Group					
Sales	171,511	156,060	183,625	212,936	125,019
Operating Income	9,024	3,710	8,418	9,010	6,726
Operating Margin	5.3%	2.4%	4.6%	4.2%	5.4%

Note: Operating Profit and Margin stated before exceptional items to ensure comparability.

Source: www.volvo.com

Table 2: Manufacturer Shares of Global Truck Production

	1997	1998	1999e	2000f	2001f
Daimler Chrysler	14.2%	17.9%	18.9%	17.2%	15.6%
Navistar	8.1%	9.5%	10.6%	9.3%	8.6%
Volvo + Scania	**7.7%**	**9.4%**	**8.7%**	**8.7%**	**8.2%**
Paccar	5.1%	6.6%	7.3%	6.5%	5.6%
Dongfeng	7.0%	7.0%	6.6%	7.5%	8.2%
Volvo	**4.6%**	**5.9%**	**5.5%**	**N/A**	**N/A**
FAW	6.0%	5.9%	5.4%	6.2%	7.0%
RVI	4.1%	5.3%	5.4%	4.7%	4.0%
Scania	**3.1%**	**3.5%**	**3.2%**	**N/A**	**N/A**
All Others	40.2%	29.1%	28.4%	39.9%	42.7%
Total volume (000s)	*1535*	*1437*	*1460*	*1475*	*1541*

Source: EIU Motor Industry Europe, www.volvo.com, authors' analysis.

Competition Law in the EU

History

Competition law in Europe has two components. First each country has its own framework of competition law: each state entered the process of integration in the late 1940s with its own individual framework and has continued to add to this over the last 50 years. Second there is a EU-wide framework which was set out in the two key treaties of Paris and Rome. Cases that are judged to 'affect trade between Member States' fall under the jurisdiction of the EU and countries are expected to renounce jurisdiction over them. However in practice there is ambiguity over jurisdiction in all areas except merger control.

The Treaty of Paris 1951

This treaty, which established the European Coal and Steel Community (a common market in the iron, coal and steel industries), also contained a number of measures to promote competition, including restrictions on trade duties and state subsidies and prohibitions on cartels, discriminatory pricing, restrictive delivery arrangements and exclusive dealing contracts. Article 66 of the treaty also established basic controls for mergers.

The Treaty of Rome 1957

At the same time as extending the common market to all industries, the Treaty of Rome laid out, in Articles 85 and 86, the skeleton of competition law for the future EU.

Article 85 prohibits cartel agreements that prevent, restrict or distort trade in the EU. This definition included agreements to fix prices, limit production, share markets, practice price discrimination among trading partners or include tie-in clauses in contracts.

Article 86 prohibits the abuse of a dominant position by a company. Again, the definition included efforts to impose unfair prices, limit production, share markets, practice price discrimination among trading partners or include tie-in clauses in contracts. The emphasis on the abuse of a dominant position reflects one of the original objectives of post-war European co-operation: the dismantling of the German monopolies and oligopolies in order to prevent any resurgence of military and industrial co-operation. Strictly speaking, it is the abuse of a dominant position and not its existence that is regulated, so no view is taken of the legality of particular monopolistic or oligopolistic market structures.

Merger Regulation before 1990

Unlike the Treaty of Paris, the Treaty of Rome contained no explicit guidelines for controlling mergers. Articles 85 and 86 proved too ambiguous to allow strict control of M&A activity and mergers were reviewed infrequently prior to 1990. Some mergers were challenged nonetheless, though this was mostly under Article 86. Not until the 1973 Continental Can case was the possibility of doing so established. In this case, the European Commission tried to block the merger of a large German manufacturer of light metal packages, which had been previously jointly acquired by the US company, Continental Can, and a leading Dutch player. The European Court of Justice permitted the merger on appeal, but agreed that mergers could contribute to an anti-competitive market structure and therefore, could be prohibited under Article 86.

The 1990 Merger Regulation and the Single Market

Although Articles 85 and 86 proved ineffective in providing a framework for merger control, differences of opinion between member states slowed the process of developing a more comprehensive merger policy. However the imminent removal of all further barriers to trade in the EU, eventually enacted in the Treaty of Maastricht in 1992, increased the pressure for agreement. The resulting Merger Regulation, which was agreed in 1989 and took effect in 1990, clarified the jurisdiction of the EU and member states and the criteria to be considered in assessing a merger.

Jurisdiction

The principle of the Merger Regulation is 'one-stop shopping' to ensure clarity and consistency and avoid duplication. Thus member states ceded jurisdiction to the European Commission in all mergers, acquisitions and joint ventures judged to have a 'Community dimension'. This is defined largely on the basis of size, where the combined global sales of the companies exceed €5 billion or the EU-wide sales of each of at least two of the companies exceed €250 million. However in these cases, if each of the companies involved earns more than two thirds of its EU-wide sales in one member state, that state has jurisdiction rather than the EC.

The 'one-stop shopping' principle of the Regulation was complicated by two clauses which provided for duplicate investigation. The 'German clause' allowed a member state to investigate alongside the EU if the proposed merger threatened great harm to its domestic competition. Conversely, the 'Dutch clause' allowed a member state to petition the Commission to investigate any merger (even if it fell below the normal investigating criteria) that was potentially and especially harmful to a single state.

Criteria

Only mergers that neither create nor strengthen a dominant position are permitted. The seven criteria for determining this are:

- Structure of markets concerned and actual and potential competition from players inside or outside the EU;
- Market power of companies involved;
- Substitutes available to suppliers and customers;
- Access to markets and barriers to entry;
- Supply and demand conditions for goods involved;
- Interests of intermediate and ultimate consumers;
- Innovation, so long as this is to the consumer's advantage and not an obstacle to competition.

Market Power

Although EC law refers to market dominance and the abuse of a dominant position rather than market power, the two concepts are effectively equivalent. This implies that a key question for the EC was the definition of the relevant market. There are differences between the EC approach to determining market power and that outlined above.

- The EC considers almost only demand substitution in defining the market
- The EC defines product and geography sequentially, rather than simultaneously

These tend to lead to an overly narrow definition of the relevant market and therefore an overstatement of market power.

Cost Savings

The 1990 Merger Regulation is ambiguous regarding cost savings. In practice, efficiency defences have rarely been used and have never been conclusive in a European merger control case.

The 1990s Merger Wave

Whereas merger waves earlier in the 20th century had affected only the US and the UK, the merger wave that began in the mid 1980s and continued throughout the 1990s affected the EU as a whole. It increased the value of mergers in the EU from a few billion dollars annually in the mid 1980s, to over a trillion dollars by the end of the 1990s. This surge in corporate merger activity created a huge volume of work for the Merger Taskforce, the body within the EC's Directorate General IV responsible for merger control.

As the number of mergers involving EU companies soared, the EC began to prohibit an increasing number of them. In the first five years after the Commission began regulating in 1990, only two mergers were formally rejected. By the end of 1999, this number had increased by nine (see Table 3).

Table 3: Mergers and Acquisitions formally blocked by EU

Date	Deal
1991	Aerospatiale/Alenia bid for De Havilland from Boeing
1994	Bertelsmann, Kirch, Deutsche Telekom MSG deal
1995	Dutch Holland Media Group venture between RTL4, Veronica and Endemol
1995	Nordic satellite distribution JV between Norsk Telecom, TeleDanmark and Kinnevick
1996	Saint-Gobain and Wacker-Chemie silicon carbide JV
1996	Finnish retail deal between Kesko and Tuko
1996	Platinum merger of Gencor and Lonrho
1997	Blokker's acquisition of Dutch operations of Toys'R'Us
1998	Proposed digital TV alliance of CLT-UFA and Kirch
1998	Acquisition by Deutsche Telekom and CLT-UFA of stake in Kirch's BetaResearch
1999	Airtours' bid for tour operator First Choice

This merger wave came at a time when the 150 civil servants within DG IV were also required to review an unprecedented number of distribution and other agreements. Though most of these were innocuous, they nonetheless fell within the broad provisions of Articles 85 and 86. The result was a proposal in early 2000, to delegate powers to review these agreements to member states, even where they affect trade between member states.

The Volvo Case and the Commission's Policy

Jurisdiction

Volvo and Scania had a combined aggregate worldwide turnover in excess of €5,000 million in 1998 (Volvo, €12.9 billion; and Scania, €5.1 billion). Each had a Community-wide turnover in excess of €250 million in 1998 (Volvo, €6.4 billion; Scania, €3.1 billion), but two-thirds of their aggregate Community-wide turnover did not originate within one and the same Member State. Hence, under the terms of the Merger Regulation, the Volvo Trucks/Scania merger fell under the jurisdiction of the EC. Neither the Swedish competition authority – the *Konkurrensverket* – nor the Swedish government made any public comment regarding the merger.

Volvo's Notification and the Commission's Review

The key question for the EC was whether a combined Volvo/Scania entity would be able to exercise market power. The definition of the relevant geographic market was critical in the Volvo/Scania case.

Volvo's Arguments

In its notification (of intent to merge submitted to the EC), Volvo argued that the EU was the relevant market for the industry. It based this assertion on a decision made in a similar case involving Renault/Iveco. There, the Commission had concluded that the relevant market for touring buses was the European Economic Area, basically because of the high levels of bus imports and exports within the area. The Commission also had recognized that purchasers of tour buses are price sensitive, private operators who have little regard for considerations of brand loyalty to national manufactures.

In its notification Volvo listed a large number of points supporting its claim:

1. **Price Levels**: according to Volvo, "…price differences between Member States are not substantial. In particular, with the exception of France, Member State price level variations for Volvo's heavy trucks, for example, are within a +/-10% range."
2. **Manufacturers were already active EEA–wide and imports within the EEA were increasing**: according to Volvo, "…the seven largest heavy truck manufacturers (DaimlerChrysler, Volvo, Scania, MAN, RVI, Iveco and DAF/Paccar), which account for approximately 97% of the European market are present in almost all Member States and all make substantial export sales. For Volvo and Scania, sales outside Sweden accounted for 90% and 80% of their total turnover in 1998 respectively. Imports represented about 30% of sales of heavy trucks in the Nordic countries. While some manufacturers continue to maintain relatively large market shares in their home countries, this is largely an historical phenomenon. Imports are continuing to increase."
3. **The emergence of large, private, trans-border purchasers**: according to Volvo, deregulation in the truck industry led to a "significant change in customer profile and purchasing habits. In particular, it has resulted in the emergence of large, multinational fleet operators such as GPE Lyonnaise and Geodis/B Montreuil in France and the Netherlands with fleets that number between 5,000 and 10,000 trucks. Whereas in the past, most of Volvo's customers were small or medium sized fleet owners, the majority of Volvo's customers are now large owners having fleets of at least 20 to 25 trucks. These large operators are present in several Member States and many of them either use competitive bids or tenders to purchase trucks from a central location or take advantage of their knowledge of prices and competitive conditions in other Member States when negotiating with distributors."
4. **Emergence of Dual Sourcing**: Volvo argued that the trend towards large and multinational customers also contributed to increasing dual (or multiple) sourcing. "To ensure independence from a single manufacturer when negotiating purchases, fleet owners with more than 20 to 25 trucks typically carry at least two different makes in their fleets."
5. **Product Standardisation**: According to Volvo, "While in the past, weight and length restrictions presented barriers to the development of EC-wide truck models, the process of harmonisation that began in 1985 has led to a situation whereby the same basic truck in terms of weight and dimensions can be sold and used throughout Europe."
6. **Absence of entry barriers for non-domestic producers**: according to Volvo, "While in the past the need to establish dealer and after-sales networks may have been considered a barrier to entry, it no longer prevents non-domestic truck manufacturers from competing in a given Member State."

However, after receiving the Commission's objections (see below), Volvo responded that the assessment of the relevant geographical market should be solely based on price factors (point1, above). The decisive factor should be whether price discrimination across markets existed, defined as the heavy truck producers earning different margins on the sale of the same good to consumers in different countries.

The Commission's Viewpoint

In contrast, the Commission contended that national borders should define the relevant geographical markets for trucks and buses. An implication would be that, due to the very high market shares the two companies had in the Nordic countries and the UK, their merger posed a serious danger to competition in these markets.

The Commission based its analysis on the fact that, contrary to the contentions of Volvo, "the evidence available shows that Volvo and the other suppliers of heavy trucks have applied significantly different prices and margins for comparable products in different Member States." Namely:

- Although price level variations within Member States fell within a +/- 10% range, Volvo's evidence showed the existence of national price variations as high as 20%. Furthermore, Volvo's prices were significantly lower in Ireland than in the neighbouring UK. The mere fact that price lists differed significantly between countries indicated that the conditions of competition differed and have the effect of making price comparisons more difficult for purchasers of heavy trucks. If markets were wider than national, the buyers of heavy trucks would take advantage of the existing price differences.
- Figures presented by Volvo showed a wide variation in profit margins. For example, Volvo's net profit margin in 1998 for one of its commonly sold models was 10-20% in Sweden versus 0-10% in Denmark. For another model, the margin was 10-20% in Finland versus 0-10% in Norway.

In addition, the Commission contended that the non-price evidence pointed toward the lack of market integration within the EU. Among others, the following points were raised:

- **Customer Preferences**: major differences might have existed even in the basic characteristics of the heavy trucks sold in different Member States. These differences were less marked if one compared the most commonly sold models within a single Member State.
- **Technical requirements varied between Member States**: despite a certain degree of harmonisation achieved at the European level, there were still a number of technical requirements, which varied from country to country. These were particularly important in the UK, Ireland and some Nordic countries. For the UK and Ireland, the need to adapt vehicles for right-hand drive severely restricted arbitrage opportunities. In the Nordic countries, the process of harmonisation and convergence would only take place within two to three years. In addition, in Sweden, a specific regulatory barrier to entry know as the 'cab crash test" prevented several competitors from entering the market.
- **Distribution and Service Network**: a key factor in the decision to the purchase of a truck was the after-sales network (maintenance and supply of spare parts) and customer support. This worked as an important barrier to arbitrage through parallel imports.
- **Purchasing was done on a national basis**: in view of the above, purchasers of heavy trucks (even 'fleet customers' with international transport activity) rarely bought from foreign dealers. Moreover, the majority of heavy truck purchasers in the Nordic countries were small and medium-size companies that bought nationally. The need for after-sales service and support, the different technical characteristics prevailing in other Member

States, and the risk of a reduced second-hand value effectively stemmed private imports of trucks.

- **Market share variations**: the variation of each manufacturer's market share across Member States was clear evidence of the national dimension of the market for heavy trucks. Volvo, for example, had a 12.5% market share in the EEA. However, it was significantly higher in a number of individual Member States (45% in Sweden, 34% in Finland, 29% in Denmark, 38% in Norway). As indicated in Table 4 below, the same was true for Scania and other manufacturers.

Table 4: Market shares of major manufacturers in Member States

	Volvo	Scania	Volvo+ Scania	Daimler-Chrysler	MAN	RVI	Iveco	DAF
EEA average	15.2	15.6	27.9	20.5	12.6	11.9	10.6	10.5
Sweden	45	46	91	6	0	1	0	2
Finland	34	31	65	10	3	18	4	0
Denmark	29	30	59	18	10	3	7	4
UK	18	19	27	9	7	6	9	18
Ireland	22	27	49	9	6	3	8	13
Germany	8	9	17	42	26	2	6	5
Austria	12	16	28	18	34	4	6	9
France	14	9	23	16	5	38	8	8
Belgium	23	17	40	18	11	8	6	17
Luxembourg	11	15	26	28	14	10	8	15
The Netherlands	16	23	39	12	9	3	3	33
Italy	12	12	24	16	6	9	41	4
Spain	13	16	29	19	8	19	20	9
Portugal	25	19	44	12	6	17	7	14
Greece	24	17	41	36	12	3	2	3
Norway	38	32	70	9	12	1	2	4

The Negotiation

Volvo's Offer

As it became clear that the Commission objected to the position in the Nordic region, Volvo countered by proposing specific measures to stimulate competition in these markets. On 21 February 2000, in private discussions with the Commission, it agreed to extensive concessions, including:

- Opening the company's dealer networks to competition;
- Divesting of a number of plants;
- Divesting its 37% stake in Bilia AB (Volvo's main dealer);
- Agreeing not to use the Scania brand for heavy trucks and buses in Sweden, Norway and Finland for two years.

This last was later described by Volvo as being "industrially and commercially destructive" and that it was "offered…. with great hesitation". Despite these concessions, the Commission judged the package insufficient.

On 3 March 2000, Volvo further offered two alternative concessions. Either:

- A formal guarantee of reduced market share in the Nordic region, with Volvo and Scania's combined share reduced by 15 percentage points in Sweden and Norway and 10 percentage points in Finland; or
- The sale of a large number of dealerships in Sweden, Norway and Finland to competitors, corresponding to 35% of Volvo and Scania's sales in Sweden and 25% in Finland.

In exchange for these, Volvo retracted its offer to divest the Bilia stake and not to use the Scania brand. The parties were still unable to agree.

The Commission's Demands

Following the rejection of Volvo's second offer, the EC's final conditions for a deal remained:

- Divesting Scania's bus operations;
- Banning the use of Scania's brand for trucks in Sweden, Norway, Finland, Denmark and Ireland;
- Transferring the distribution of Scania's products in the above countries to competitors; and
- Selling Volvo and Scania dealerships in the above countries.

Epilogue

As he considered the appropriate course of action, Volvo CEO Leif Johansson asked himself whether the benefits of a merger outweighed the costs of accepting these conditions.

On 8 March 2000 negotiations between Volvo and the EC broke down. Volvo issued a statement to the press that, "in Volvo's opinion the conditions for an agreement do not exist". Volvo publicised its previous offers and the EC's demands, which were described by Volvo as "not…in any reasonable proportion to the scope of the problem". Volvo pinned its hopes on the Merger Taskforce being overruled at a meeting of the full, 20-member Commission, scheduled for 14 March 2000.

However on this date, the Commission rejected Volvo's application for competition clearance of the Scania acquisition, on the grounds that it would give the merged firm a virtual monopoly in Sweden and a clearly dominant position in the Nordic area. Johansson described the decision as "against the basic concept of the common market". Specifically the Commission's objections were that the merged company would have:

- Market dominance in heavy trucks and city buses in Norway, Sweden, Denmark, Finland, and Ireland;
- Market dominance in touring coaches in Finland, and the UK; and
- Market dominance in intercity buses in Norway, Sweden, Denmark, Finland.

On the same day the Commission also rejected the three-way merger of aluminium companies Alcan Aluminium of Canada, Pechiney of France and Alusuisse Lonza of Switzerland. Two rejections on the same day emphasised the toughened stance taken by the Competition Commissioner, Mario Monti: in the 10 years since the Commission began regulating, only 11 mergers had been rejected.

Both Volvo and Scania went on to find other merger partners within weeks. On 27 March 2000, Volkswagen acquired an 18.7% stake in Scania, giving it 34% control for a sum of SEK 13.8 billion (US$1.6 billion).

On 25 April 2000 Volvo announced plans to sell its stake in Scania to VW and the next day, it announced it was paying US$1 billion for Renault's truck business, Renault VI. Lehman Brothers increased Volvo's rating from 'neutral' to 'outperform', describing the RVI/Mack deal as "at the right price…[and]… offering substantial synergies".

On 27 April 2000 Scania announced a surprise 14% fall in first quarter profit to SEK 955 million (US$107 million) from SEK 1.1 billion, blaming uncertainty created by the Volvo bid.

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