

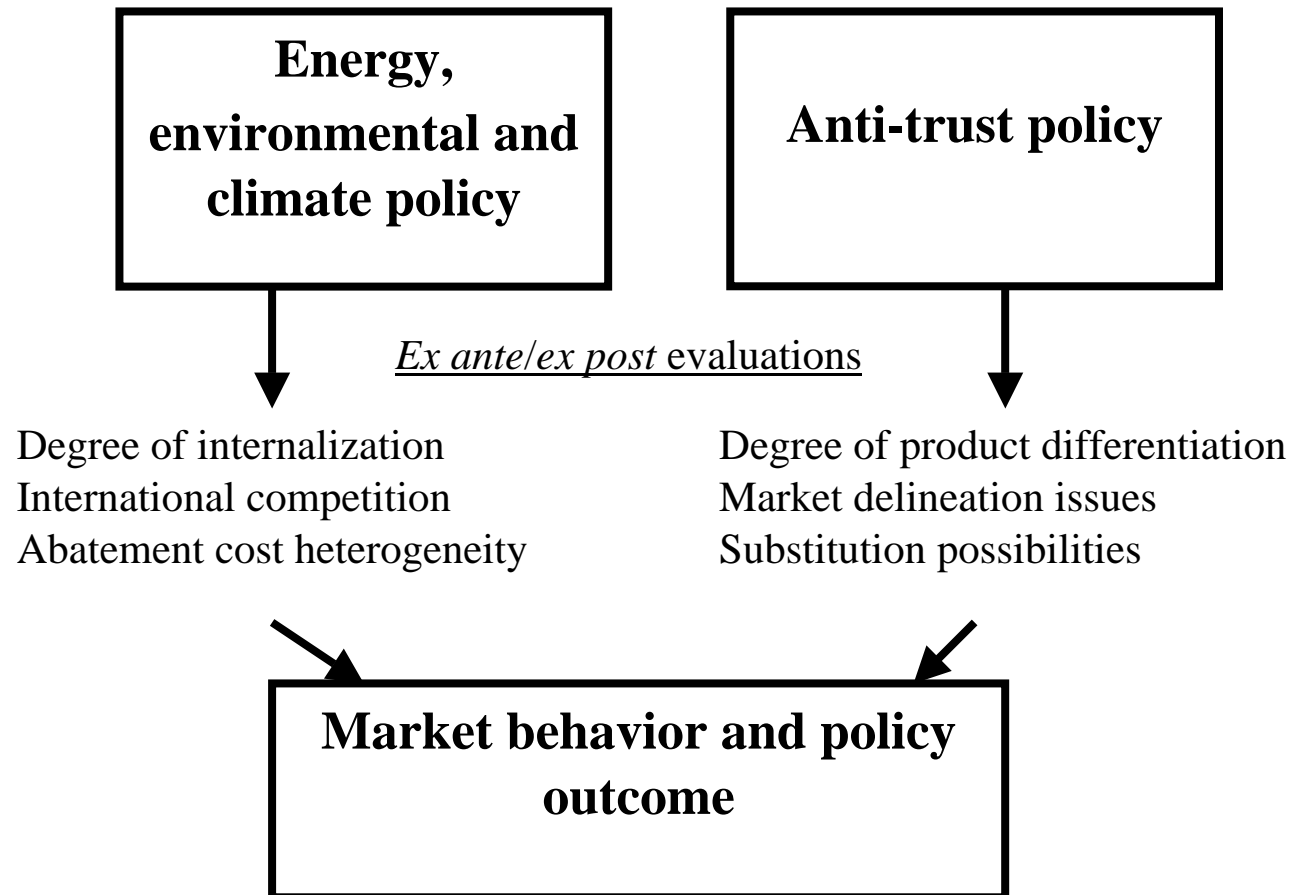


Mergers in the Minerals Industries

Patrik Söderholm
Professor of Economics
Luleå University of Technology



Markets and policy intervention



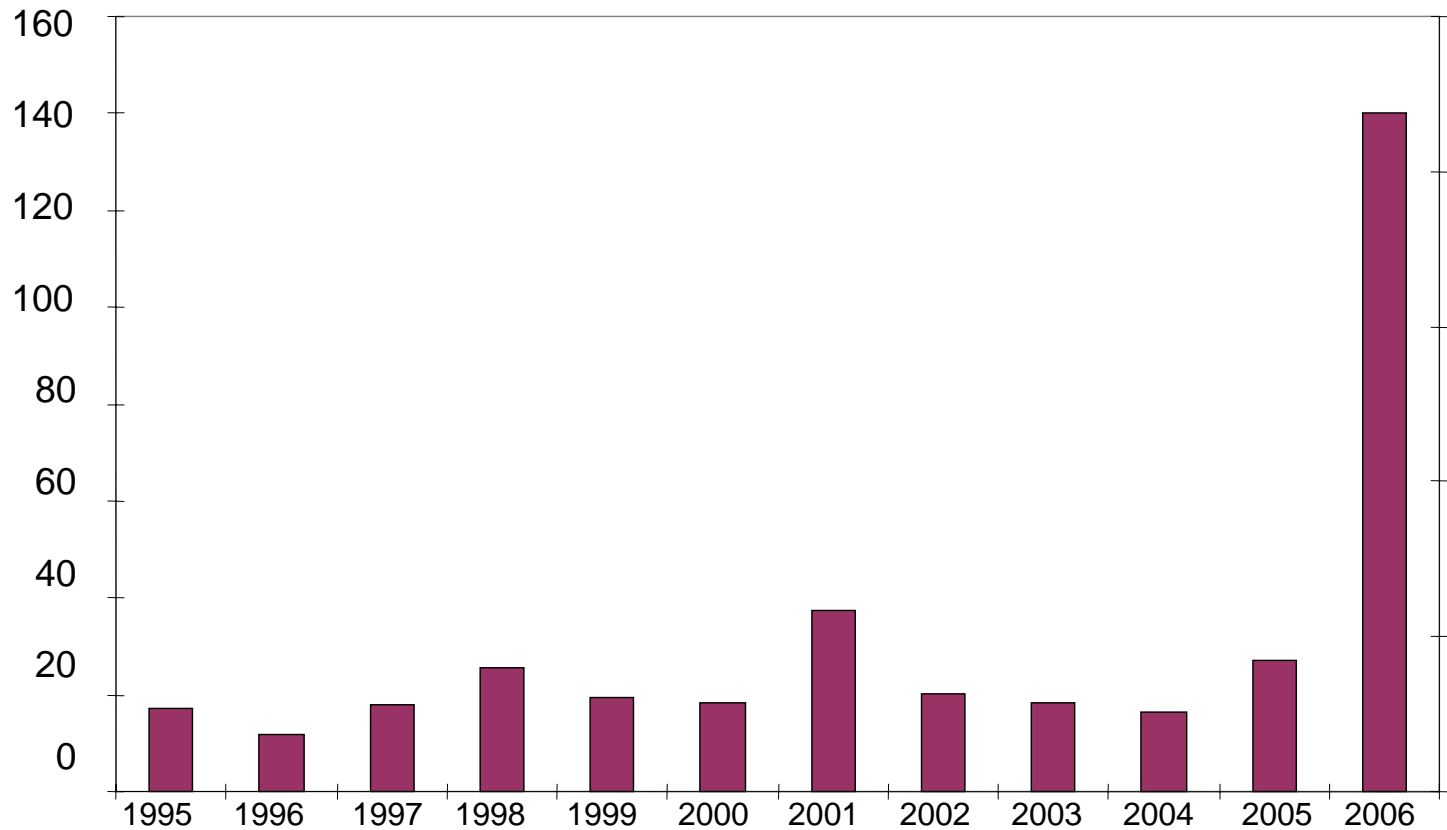


Structural changes in world mining

- **Globalization**, triggered by (a) partial abandonment of state ownership in mining; (b) a more relaxed attitude to supply security; and (c) decline in transport costs.
- **Consolidation**, mainly through M&As, which have reawakened old concerns about security of supply and market control.



Mining Mergers (US\$ billion)



Source: Raw Materials Data, Stockholm.



Why a merger boom? (Ericsson, 2007)

- Privatization trends in developing countries and CIS countries.
- Commodity diversification.
- Technical progress imply big R&D budgets, which can only be borne by larger entities.
- Mining projects increasingly involve capital-intensive processes.
- Exploration *versus* mergers and acquisitions.



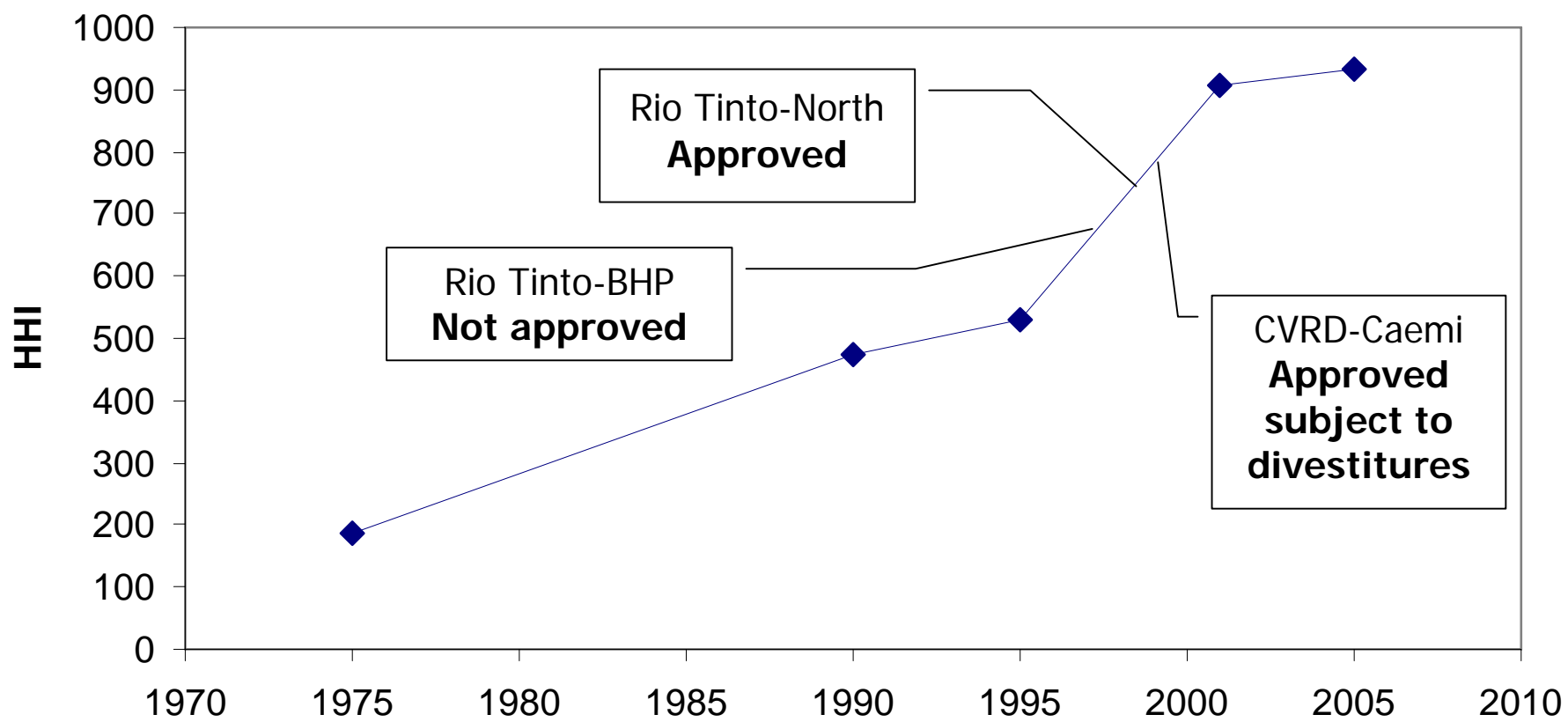
Research Objectives

The purpose of the project is to evaluate the competitive and efficiency impacts of horizontal mergers in the mining and minerals industries.

The analysis involves two consecutive steps:

- the determination of the relevant *economic* market using price and shipments data;
- *ex ante* simulation of the competitive and efficiency effects using numerical market models and event study techniques.

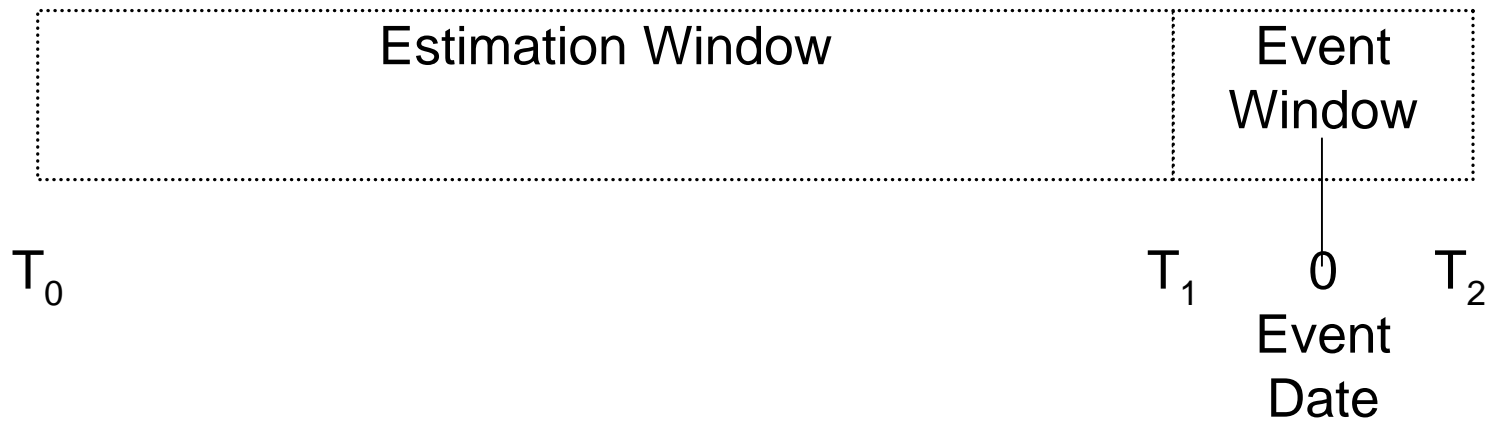
Concentration in the Iron Ore Industry



Source: Raw Materials Data, Stockholm



Event study of the Rio Tinto/North Merger



Use stock market data to estimate abnormal returns for: (a) acquiring firm; (b) target firm; and (c) rivals (Wårell, 2007).

Merger announced and approved in 2000, but also followed by counter bids from Anglo American.

Merger Study Hypotheses

	Gains to Target	Gains to Acquirer	Gains to Rivals	Welfare Effects
Efficiency	+	+	-	+
Market Power	+	+	+	-

Source: Wårell (2007), forthcoming Ph.D. thesis.

Rio Tinto-
North merger



Concluding remarks

- More mining mergers to be expected in the future.
- So far no immediate concerns for significant anti-competitive effects on prices.
- Efficiency impacts typically more prevalent in the mining industry, but these are seldom recognized by relevant competition authorities. Consumer versus producer surpluses!
- Market definition issue likely to become increasingly important.