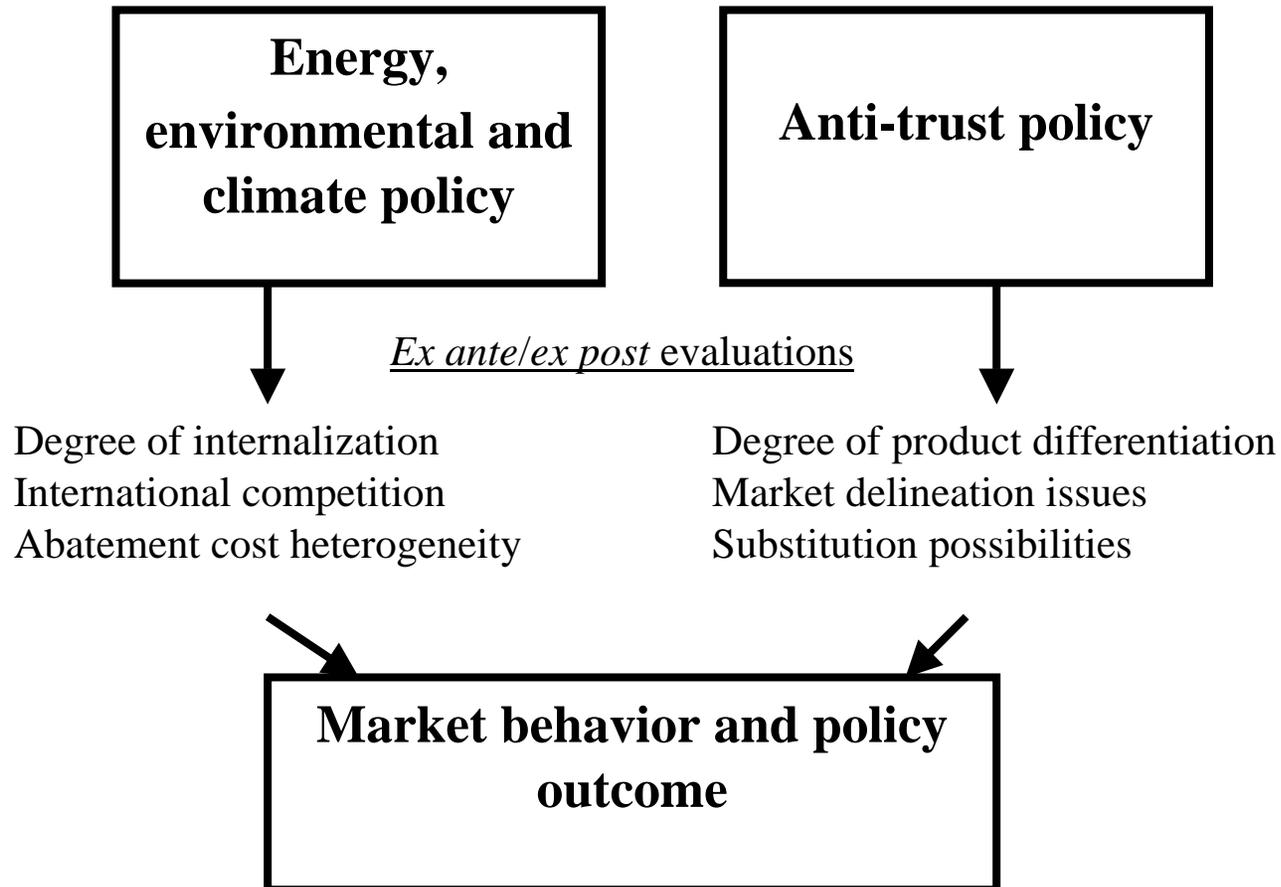


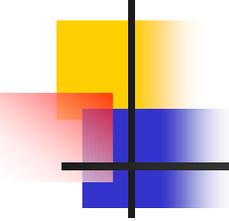
# Mergers in the Minerals Industries

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**Patrik Söderholm**  
Professor of Economics  
Luleå University of Technology

# Markets and policy intervention

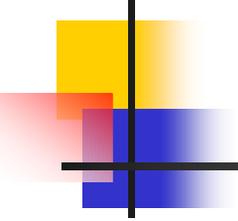




# Structural changes in world mining

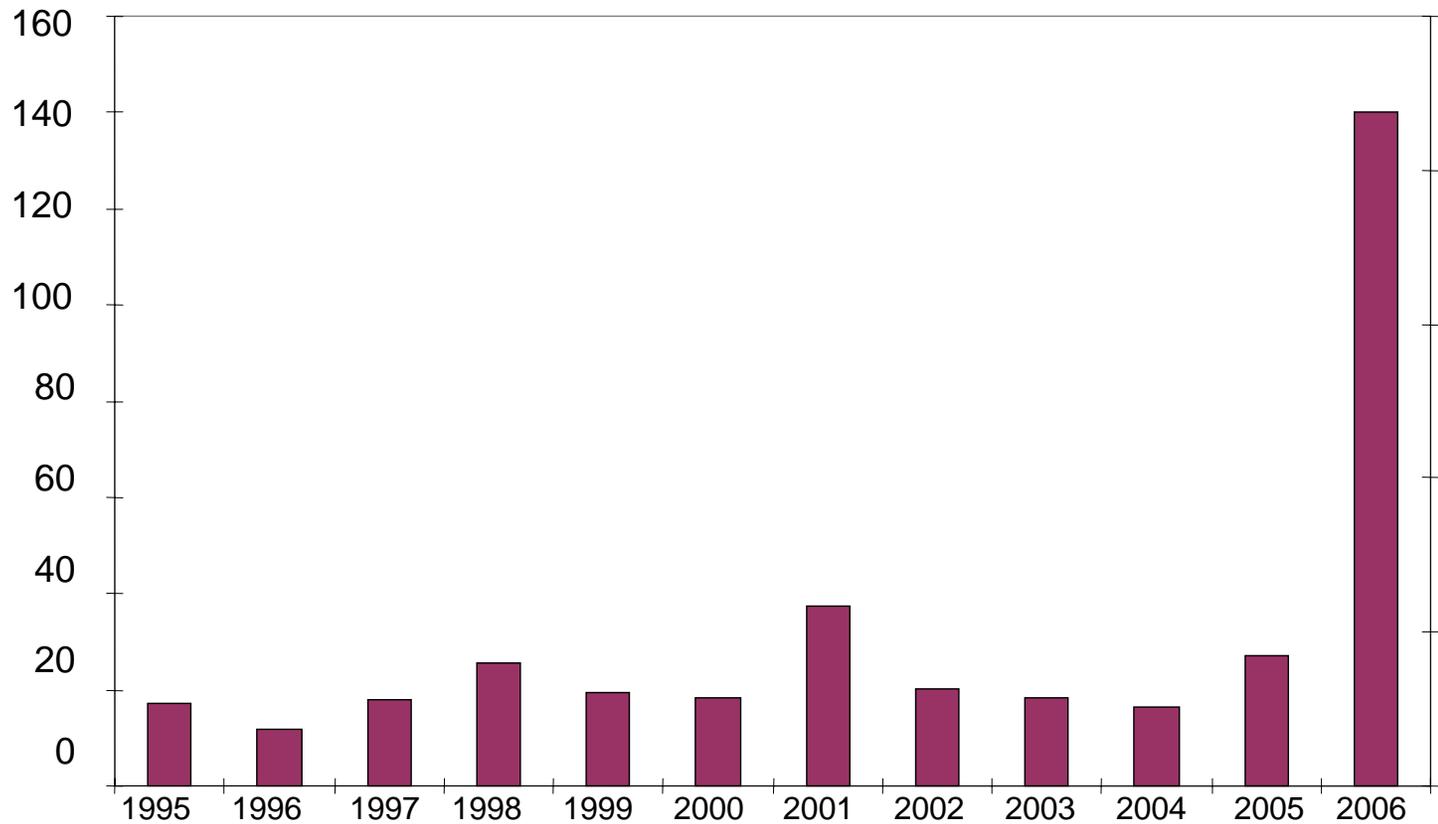
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- **Globalization**, triggered by (a) partial abandonment of state ownership in mining; (b) a more relaxed attitude to supply security; and (c) decline in transport costs.
- **Consolidation**, mainly through M&As, which have reawakened old concerns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

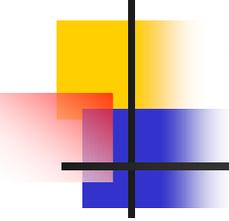


# Mining Mergers (US\$ billion)

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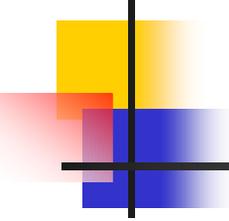
**Source: Raw Materials Data, Stockholm.**



## Why a merger boom? (Ericsson, 2007)

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- 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

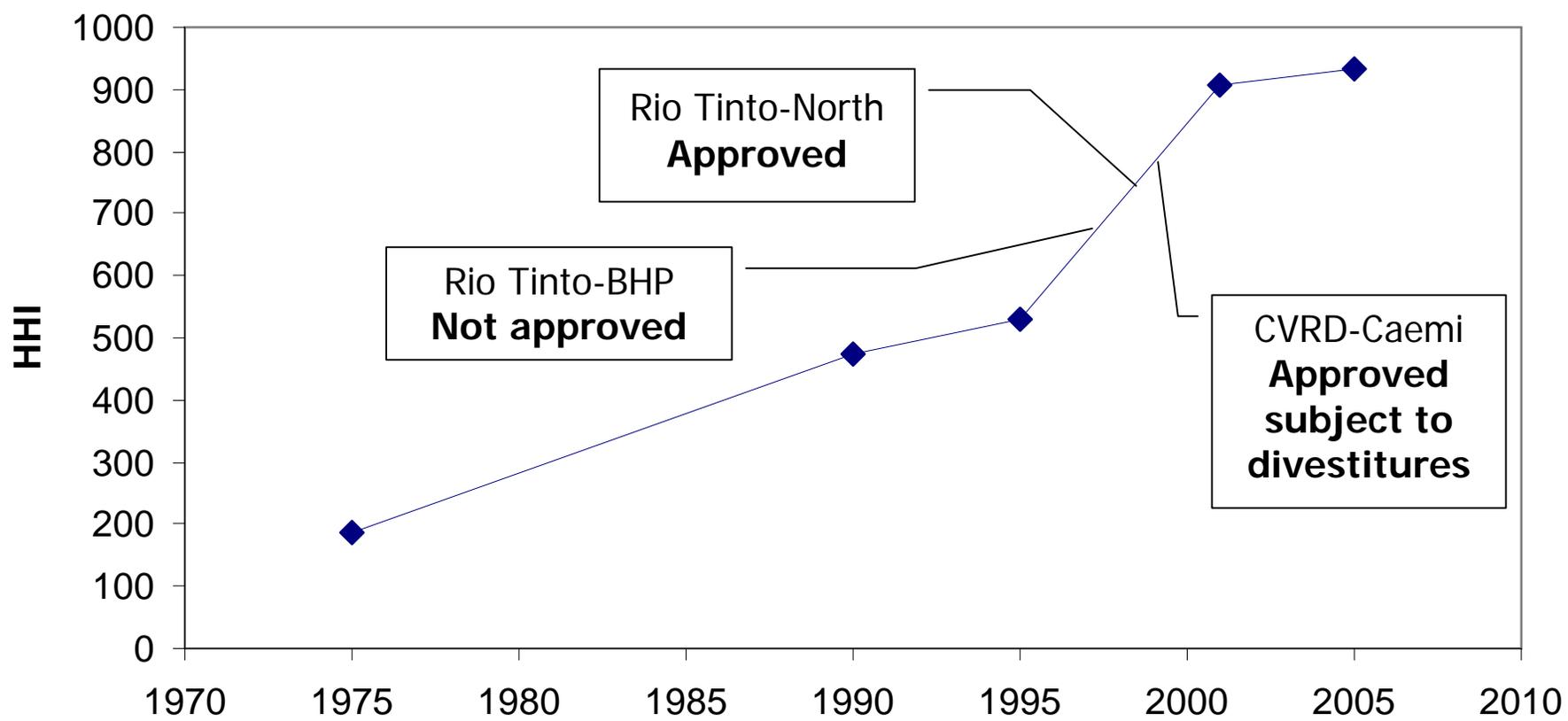
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The purpose of the project is to evaluate the competitive and efficiency impacts of horizontal mergers in the mining and minerals industries.

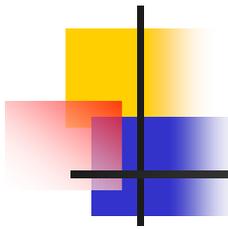
The analysis involves two consecutive steps:

- 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

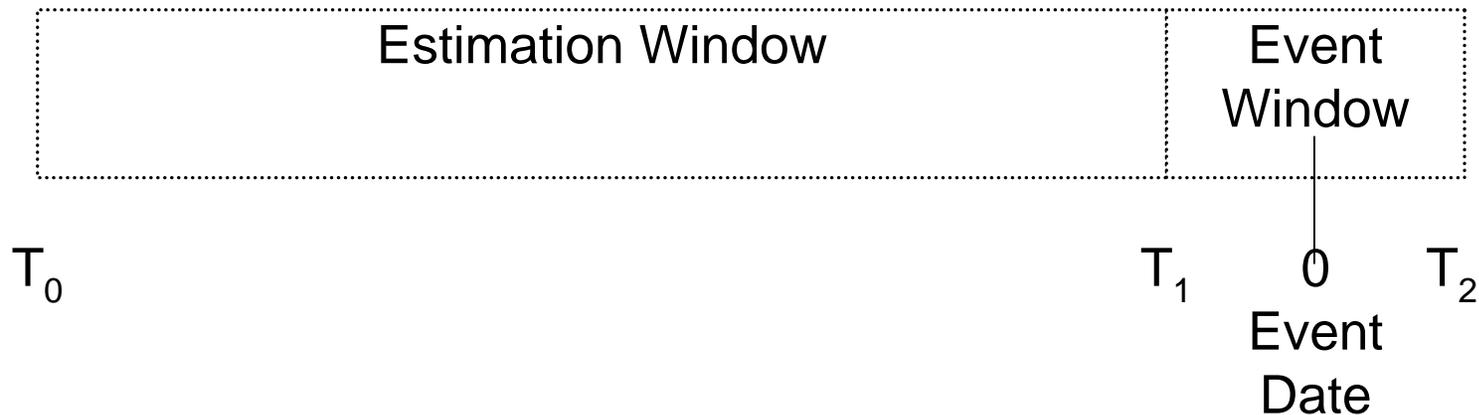


Source: Raw Materials Data, Stockholm



# Event study of the Rio Tinto/North Merger

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

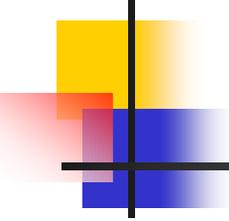
Merger announced and approved in 2000, but also followed by counter bids from Anglo American.

# Merger Study Hypotheses

	Gains to Target	Gains to Acquirer	Gains to Rivals	Welfare Effects
<b>Efficiency</b>	+	+	-	+
<b>Market Power</b>	+	+	+	-

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

Rio Tinto-  
North merger



# Concluding remarks

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- 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.