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# **The AB InBev-SABMiller merger case**

**Methodology and empirical analysis**

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## **Glossary**

ABI= Anheuser-Busch InBev (AB InBev)

SAB= SABMiller

ABI/SAB or SAB/ABI= the hypothetical new entity post-merger

# **Introduction**

Over the last 30 years, we perceived an increase in the concentration within the beer market. The concentration of the beer market came thanks to the mergers and acquisitions behaviours along these years. We observed the emergence of large groups of producers, which now produces together more than half of the beer production over the world. A strategy adopted by such important undertakings was to acquire another strong undertaking which was strongly competing in another part of the world. That was for instance the strategy adopted by Anheuser-Busch which was already one of the leading company in Europe when it decided to acquire Interbrew, mostly active in the United-States (USA). In 2009, the four leading companies were AB InBev, Carlsberg, SABMiller and Heineken. Along the years, we could see many examples of merger & acquisition cases regarding one of those four undertakings. For instance, Heineken and Carlsberg decided to acquire Scottish and Newcastle to expand their business over Scotland and the United-Kingdom.

The aim of this thesis is to investigate the methodology used by the Commission to assess a case of merger between two companies. This paper deals with the acquisition by AB InBev of the company SABMiller, which were both active within the beer market in Europe.

The first outcome of this study is to present why it is so important and interesting for firms active in a specified market to merge with firm active in another market. This included a short presentation of the main competitors and a description of the main issues related to the beer market. A second outcome includes an analysis of the methodology used by the Commission to assess the specific case (the AB InBev-SABMiller merger). This implies a presentation of the tools which were available for the commission and how it used them. The third outcome is the investigation of the effect of the acquisition of SABMiller by AB InBev to the other competitors through the conduction of an event study. The aim of this empirical analysis was to perceive the impact of the merger on the competitors (Heineken, Carlsberg, and Molson Coors). A positive impact would say the merger would be anti-competitive as it would higher the profits of the competitors and so their market power. Through our empirical analysis, we founded that, at the time the will to merger has been officially announced by AB InBev, the merger was anti-competitive. We will thus discuss why the Commission decided to accept the merger the 24<sup>th</sup> of May 2015.

# **1. Leading undertakings within Europe: Overview**

As we will examine later the real sharing of the European beer market between the different companies, this section will only present a short description of the different companies active in Europe.

**Anheuser-Busch Inbev<sup>1</sup>** (ABI) is one of the world's leading producers of beer, among them Corona, Stella Artois, Leffe, Hoegaarden. The group has also a second activity which consists of producing, bottling, sales of alcohol-free drink as soft drinks, bottled water ice tea. AB InBev is active throughout the world: Europe/Middle East/Africa (18,3%), Latin America (39,7%), North America (27,6%), Asia/Pacific (13,8%) and other (0,6%).

**Carlsberg<sup>2</sup>** is also one of the third leading undertakings within the European beer market. The group's activity focuses on producing and selling of beer. The undertaking is mostly active in Western Europe (57,8%), Asia (24,9%) and Eastern Europe (17,2%).

**Heineken<sup>3</sup>** is also one of the third leading undertakings which owns 170 breweries and is active in 70 countries. The activity is concentrated in the Europe/Middle East/Africa (58%), North/Latin America (29,4%), Asia/Pacific (12,6%).

**Molson Coors<sup>4</sup>** is an US undertaking that manufactures, markets, and sells beer and other malt beverage products in the United States, Canada, Europe, and internationally. However, this undertaking is active in Central and Eastern Europe but not in Western Europe. Molson Coors has played a special role because of the link with Anheuser-Busch Inbev (ABI). We will deal with this issue later in this paper.

**SABMiller<sup>5</sup>** was a South African brewery which was also a specialized company active within the production and selling of beer. The company was strongly active in the South African market and the Latin American market. It was also producing, marketing and distributing soft drinks.

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<sup>1</sup> (Zone Bourse, 2019)

<sup>2</sup> Ibid

<sup>3</sup> Ibid

<sup>4</sup> Ibid

<sup>5</sup> Ibid

## **2. What are the reasons for merger in the beer market?**

When we try to understand the main factors that inspired those undertakings to merge, we need to consider some specificities of the beer market. First, with the emergence of a global market, undertakings wanted to export their beers but the transportation was costly, more than for other consumer goods. So, exporting beers is excluded when the more interesting is to produce near the market the undertaking targets. As the undertakings couldn't use their national plants to cover international market, it became more attractive to expand their business by acquiring more undertakings active in another market. One other point concerned the major role played by the advertisements within the beer industry. Advertisements are used to connect the brands with the consumers, and it has been documented that advertising could play a combative role within oligopolistic markets to divert the consumers from another firms (Belleflamme & Peitz, 2015 p.148). Indeed, no less than 17% of the profit of the big brewing undertaking came thanks to the advertisements, which was significant (Madsen & Wu, 2014 p.2). By unifying advertisement campaigns, the undertakings could decrease their costs. Multi-plants, economies of scale, advertisements are among the main factors that lead firms to merge with the aim to expand and have more profitable businesses.

## **3. The AB InBev/SABMiller case:**

In November 2015, the undertaking ABI ("Anheuser-Busch InBev, Belgium") made official the willingness to acquire the undertaking SAB ("SABMiller", United Kingdom), which was competing within the same sector: the production, marketing and distribution of beer and soft drink products. Considering the whole European beer market, SAB and ABI were respectively the third and fourth players (in term of volume) while at the global level, there were the first two leading brewers. By unifying their businesses, the new undertaking would increase its international as they would get 30% of the market share (in volume) at the international level and they would also get 50% of the world's beer profit (AB InBev/SABMiller, 2016 p.9).

The transaction consisted of the creation of a new company "NewCo" which was created to acquire the shares of SABMiller. Then, ABI transferred all its assets and liabilities to "NewCo". Finally, ABI

has been dissolved and “Newco” could change its name into AB InBev (AB InBev, 2017, p.2)<sup>6</sup>. As SABMiller and AB InBev were companies which were competing within the same market, the merger fell into the Horizontal Merger Guidelines (HMG).

### **3.1 The Commission assessment (methodology):**

The first thing to be done when assessing a case of merger is to define the relevant market. The reason why it is important is that it helps us to know what was the market (in term of product and area) in which the undertakings were competing. By knowing the relevant market, the Commission could proceed to an investigation of whether a merger could ease tacit coordination between the undertakings or whether it could lead to the emergence of a dominant undertaking which could abuse of the dominant position as defined in the article 102 of the TFUE. Such anti-competitive effect would have as consequences the decrease of the consumers’ benefits.

As mentioned before, the Commission needed to determine the *relevant product market* and the *geographical product market* to make the correct competitive assessment. Using this analysis it could determine 1) which products were competing between undertakings 2) witch segments had to be taken into account 3) in which area the undertakings were competing (global or national). Only then, could the Commission assess the possible anti-competitive effect of the merger.

### **3.2 The relevant product market (and application):**

*'A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use'.*

(European Commission, 1997, §7)

The definition of the relevant product market emphasised on the concepts of interchangeability and substitutability. A substitutable product is a product that could be substituted from another firm and satisfy the consumption utility of the consumer, so the latter does not take into account the “*firm from which the good is bought*” (A.Hay & Morris, 1991, p.6). We observed that the Commission only needed a certain degree of substitutability (and not a perfect substitutability). An interchangeable product refers to similar products in performance and durability. Again, the Commission didn’t need pure interchangeability, therefore a product which is interchangeable may not be taken into account in

the relevant product market whereas a product which has a limited interchangeability might be taken into account.

The Commissions had different techniques to assess the substitutability and interchangeability<sup>7</sup> (Hildebrand, 2016, p.212) but according to this case the Commission principally used “*Questionnaires to customers*” and “*Questionnaires to competitors*” which could provide a decent overview of the market’s boundaries and also other factual informations. However, it also used past decisions to mainly distinguish one market from another one.

By seeking information about the principal substitutes of beer, we found a market study that pointed out that the close substitutes for beer were the other alcoholic drinks such spirits and wine<sup>8</sup> (MarketLine, 2014, p.20) with one of the principal argument being that the switching cost were not high. Nevertheless, the study added that it depended on the channels by which those alcoholics drinks were sold. For instance the wine was important in restaurants’ menus, whereas in pubs, beers were capital. The hypermarket would on its side sell both drinks. Eventually the study described wine and other alcoholic drinks as “*moderate substitutes*” of beer. However the Commission referred to previous decisions (Carlsberg/Holsten (2004) or Heineken/BBAG (2003) among others) in the same sector to define the beer market as “*unique and different from other market like wine or soft drinks*”<sup>9</sup>(AB InBev/SABMiller, 2016 p.5). The Commission also found relevant to make further segmentations, in particular the on-trade/off-trade segmentation, the premium/super premium segmentation or also the segmentation by style (lager, stout, ale).

### ***3.2.1 Segmentation 1: The on trade and the off-trade market***

As most of alcoholic brands, the beer market can be segmented between the on-trade and the off-trade channels. The on-trade market refers to beers which are sold in retail outlets as pubs, cafés, restaurant, clubs, hotels whereas the off-trade market refers to beers which are sold in outlet as hypermarkets, supermarkets or liquor stores. Those markets are different regarding their “*prices, products mix,*

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<sup>7</sup> Evidence of substitution in the recent past, quantitative test, consumer preference analysis, and price discrimination... all these techniques will not be covered within this paper. We will retain only the one or those which had been selected by the Commission.

*customers, packaging, services and also in consumer purchasing behaviour*<sup>10</sup> (the main drivers in the on-trade market are prices, habit whereas main driver in the off-trade is format).

### ***3.2.2 Segmentation 2: The standard beer, the premium beer, the specialty beer (super-premium)***

Mainstream beers refers to entry lever beer (popular brand). Premium beer refers to upmarket beer (national and international brands) and super-premium beer refers to specialty beers (national and international brands). The cost of the premium beer and mainstream beer were not so different. Indeed, breweries discovered that the consumer were rating the quality of a product depending of its price. So, higher prices corresponded for the consumers to higher quality (Madsen, Pedersen, & Lund-Thomsen, 2011). That's why the undertakings decided to sell more premium brands. The Commission had to distinguish whether those different brands were competing each other. The questionnaires to competitors and questionnaires to customers revealed that standard and premium beer could compete between them. In fact the "*consumers tend to choose within the repertoire of brands rather than always picking in the same segment*" and that "*beers of the different segments are competing against each other*" (AB InBev/SABMiller, 2016 p.5). All those arguments tended to favour the idea that the consumer behavior depended more on the brand than on the different segments. However, the Commission in its further assessment of the market shares decided to make a distinction between premium and super-premium beers segments.

### ***3.2.3 Segmentation 3: Lager, ale, stout, special beer***

The segmentation based on the type of beer was considered as relevant by the Commission but depending on the characteristic of the country. Therefore, in our case, this distinction only appeared through the United-Kingdom market assessment of the market share.

### ***3.2.4 Conclusion on the relevant product market***

To conclude on the relevant product market, we must remember that the Commission used questionnaires to competitors and questionnaires to customers when analysing the interchangeability and the substitutability of the product and define the relevant product market. Therefore, it concluded

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<sup>10</sup> AB Inbev/SABMiller, 2016, p.5

that three segmentations had to be considered: the off/on-trade, the premium/super-premium, and the segmentation bases on type (in UK). Other segmentation as the national/international beer segment were considered irrelevant as in each country the national beers could compete with international brands.

### **3.3 The relevant geographic market (and application):**

*“The relevant geographical market comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competitions are appreciably different in those areas”*

(European Commission, 1997, §8)

The Commission referred to past decisions which pointed out some arguments favouring the idea of a national rather than a European beer market. It highlighted some factors that we must consider when dealing with the beer market.

#### **3.3.1 The habits of the consumers**

First, the habits of the consumers differed across the countries. In some countries, consumers would prefer the premium beers whereas in another countries, popular beers would be preferred. The Commission used the questionnaire filled by customers to understand the consumers’ preferences. For instance, in Czech Republic the consumers were used to consume mostly lager beers (tradition of famous Czech Brewery). Moreover, the consumers in Czech Republic shifted from HORECA consumption to home-consumptions (European Economic and Social Committee, 2013, p.11). Another habits referred to the young consumers’ preference for a variety of choice and packaging for different occasions. As those habits’ changes have been related comparing the years 2009 to 2012, changes in the habits of the consumers from a country can appear in a short period of time. Another example could be the difference in consumption between the on-trade and off-trade market across the countries: 43% of the consumption of beer in the United Kingdom (2017) <sup>11</sup>come from the on-trade market and 67% from the off-trade whereas 25% of beer consumptions in Denmark comes from the

on-trade and 75% from the off-trade (Regioplan Policy Research, EY, 2013). Therefore, all those habits could evolve through a short period of time.

### ***3.3.2 The distribution network***

Secondly, the Commission used questionnaires sent to customers to assess that the distribution networks (storage facilities, transportation to customers) were “generally” national rather than international. The distribution network can be direct (sellers sell directly the products to the customers) or indirect (intermediaries are licensed to sell the products to customers).

### ***3.3.3 The legislations across the countries***

Thirdly, the Commission outlined differences in term of the legislations across the EEA countries and took the examples of taxes and VAT. We should be aware that differences in terms of legislation could have an influence over the consumer habits. The legal drinking ages are different in Germany (16y) and France (18y) and so could differ across other European countries. Considering evolution in legislation from the recent years Lithuania taxes on alcoholic drinks increased in 2017 (Astrauskiene, 2017). Also some Health policies have arisen these recent years to prevent the over-consumption of alcohol, notably in Germany where the consumption of alcohol has been declining over the last 30 years (OECD, 2012).

### ***3.3.4 Conclusion on the relevant geographical market***

Knowing that the habits of the consumers could be different depending on the countries, that the distribution channels are generally national in scope and the legislation, which could have an impact on the consumers habits, could differ across the countries, the Commission decided to analyse the possible anticompetitive effect of the merger on the market competition country per country. The Commission thus analysed the effect of the merger country per country, considering the following segments: the on/off-trade market, the premium/super premium market and the different in types of the beer (for UK).

## 3.4 Concepts and application to the case:

### 3.4.1 Horizontal merger and effect on the market structure

As we previously stated, a horizontal merger within a market like the beer market which is already highly concentrated could lead to a decrease of the consumers' welfare even if the merger is profitable from the firm's' perspective. When assessing this type of merger, the Commission had to refer to Horizontal Merger Guideline (HMG) that has been created to deal with this specific issue. The aim is to avoid a decreasing of the effective competition which has been described in the §8 of the HMG as *“insuring low prices, high quality products, a wide selection of goods and services and innovation.”* (Official Journal of the European Union, 2004)

### 3.4.2 The market power and the market share<sup>12</sup>

*“The market power is ability of one or more firms to profitably increases prices, reduce output, choice or quality of good and services, diminishing innovation, or otherwise influence parameters of competition”*

(Official Journal of the European Union, 2004)

The market share constitutes an important tool when assessing the likely increase of the market power and the effect of a merger on the current competition.

Within this case, the Commission measured the likely future market share of the merging firms (SAB/ABI) by adding the pre-merger market share of both merging firms as described in §15 of the HMG. AB InBev, SABMiller, Heineken, Carlsberg were the four undertakings which were clearly competing within the Western Europe countries. SAB, Heineken and Carlsberg were strongly competing within the Eastern and Central Europe countries whereas AB InBev hadn't a significant market share in this part of Europe. We will also explain later the special role of the US undertaking Molson Coors that we described at the beginning of the paper.

Therefore, the Commission analysed, country per country, the market shares that the merging firm could likely obtain from the merger using the data from 2014. We needed to consider that a market share of more than 70% is considered by the Commission a sufficient proof of dominance. Lower than

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<sup>12</sup> The tables showing the repartition of the market shares between the different undertakings have been placed on the Annexes for a better lisibility.

70%, a further analysis has to be run. In our case, neither AB InBev nor SAB Miller had such market share. Thus, the analysis had been conducted in all countries.

Despite the uncertainty of real dominance, the Commission noted that in each EEA countries, at least one of the undertakings mentioned above (ABI, SAB, Heineken, Carlsberg) had significant market shares (Annexe A). Through the analysis, the Commission focused on the market share of the merging firm and on the market share and the position of the competitors. For instance, ABI had between 50-60% of market shares in Belgium whereas it had 0 to 5% of market shares in Bulgaria and Cyprus among other. SABMiller had 0 to 5% of market shares in Belgium but 40 to 50% of market shares in Czech Republic. Depending of the country each undertaking had more or less market shares. SABMiller and Heineken were thus strongly competing in Slovakia and Romania, both having 30 to 40% of market shares. Summing the market share of those four undertakings (SABMiller, Heineken, Ab InBev and Carlsberg) confirmed that the beer market was highly concentrated across Europe: together they accounted for “67% of the Western European beer profit pool, 70% in Central and Eastern Europe” (AB InBev/SABMiller, 2016, p.9).

### ***3.4.3 Barriers to entry within the beer market***

We already knew a merger could boost the likelihood of a dominant undertaking emergence. It presupposes a significant market power from the undertaking (and so significant market share), but also a market structure that suffers from strong barriers to entry. Barriers to entry are the costs or other obstacles that prevent new competitors from easily entering an industry or area of business. Lower barriers could be a clear significance of a low probability of a dominant undertaking emergence as new firms could enter and compete with the current undertakings actives within the market. Therefore, the Commission had to assess whether there were significant barriers to entry which could hinder new undertakings' entry. The Horizontal *Merger Guidelines* defined the several forms of entry barriers : first, legal barriers (licenses, permits...) introduced by the regulator to limit the number of participants. Secondly, the structural barriers (technological advantages, economies of scales...). Thirdly, the strategic barriers, which refers to the comportment of the firms in the market which hinder new companies to enter.

#### *Brands recognition*

A strategic barrier to entry within the beer market could be the brands recognition. Multitude of studies regarding the taste test about beer concluded that consumers were operating differentiation between

product depending on the brand: the consumers did not make any differentiation between beer when they didn't know the brands, however, when the brand were known, the ranking differed and the preference were linked to the brand recognition(Keller, 2003 p.62). Therefore, companies which would like to enter the market would need time and would incur high costs to develop their own brands and to build links with consumers.

#### *Access to the distribution network*

Another strategic barrier to entry within the beer market is the difficulty of access to the distribution network for new entrants. As previously stated, the distribution network could be direct or indirect. In case of indirect distribution network, the undertakings which have a strong or long-time relationship with the intermediary could incentive the latter to not cooperate with the new(s) competitor(s). This difficulty of access are huge barriers for those companies which want to enter and also for companies which are already in the market and would like to grow. The strategy from a firm to deter other firms from its distribution network is called the “*tying system*” (Van der Hallen, 2008 p.30) and was particularly used within the beer market.

#### *Amount of capital required, economies of scale...*

We can also add that the amount of capital required from an undertakings which would like to start its brewing businesses and compete with the strongest undertaking within an country could be consequent(equipment, buildings...). Also the economies of scale by which higher production leads to lower cost (and so provide cheap products) and therefore create an advantage for high volume producers and so bigger firms.

*“Scale efficiencies, lengthy of brand recognition, high cost of investment makes the entry of new companies very rare”*

(Official Journal of the European Union, 2004).

### **3.5 Coordinated and non-coordinated effects of a merger<sup>13</sup>**

As previously said the aim of the Commission is to avoid the creation or the strengthen of a dominant position through a merger, in this case a horizontal merger between AB InBev and SABMiller.

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<sup>13</sup> The tables representing the repartition of the market shares of the different undertakings in each country are available in the Annexes.

Therefore, the Commission analysed country per country whether the merger could lead to anticompetitive non coordinated and coordinated effects.

The HMG when defining the non-coordinated effect refers “to the impede of effective competition in a market by removing important competitive constraint on one or more sellers, who consequently increased market power” (Official Journal of the European Union, 2004 §24). In such case, the disappearance of one competitive undertaking could higher the market power of the other undertakings without even seeing undertakings using coordinated behaviour. To assess the rise of non-coordinated effect the Commission looked up at different elements defined within the HMG: high market share, closeness of competition, limited switching possibilities, elimination of important competitive forces, hindering of expansion. All those elements have been considered for each country analysis.

The coordinated effects refers to a change in the market structure that ease the coordination between the undertakings, which before were not coordinating their behaviours or those one which were already coordinating making this coordination more stable or effective. Coordinated behaviours can be implemented to increase the prices of the product (and so reduces the consumers’ welfare) to get more profit. The Commission again had to assess the likelihood of the raise of coordinated effect in each country. The coordinated effect could happen more likely in an oligopolistic market, which is the case here in the beer market. The following analysis will consider the countries where the Commission had a strong suspicion about non-coordinated effects and coordinated effects.

The following table shows us the countries in which the Commission had a strong presumption of the emerging of anticompetitive coordinated and non-coordinated effects. We will follow the methodology adopted by the Commission and start our analysis by distinguishing the Western Europe countries area with the Central and Eastern Europe countries, as the issues and the assessment could differ for reasons we will also discuss later.

Table 3.5.1: The table shows the Commission’s doubts about the possible emergence of coordinated and non-coordinated effects in Western, Central and Eastern European countries

Western Europe	Non-coordinated effects	Coordinated effects
BELGIUM	NO	NO
NETHERLAND	YES	YES
ITALY	YES	YES
UNITED KINGDOM	YES	NO
FRANCE	YES	YES

Central and Eastern Europe	Non-coordinated effects	Coordinated effects
HUNGARY	YES	YES
ROMANIA	YES	YES
CZECH REPUBLIC	YES	YES
SLOVAKIA	YES	YES
POLAND	YES	YES

In Western Europe, the Commission had serious doubts about the compatibility of the merger with the internal market in The Netherlands, Italy, United Kingdom and France, mostly because of the possible anti-competitive non-coordinated and coordinated effects. In Central and Eastern Europe, the doubts concerned Hungary, Romania, Czech Republic, Slovakia and Poland. The Commission first set the context of the market competition within the different countries and then listed the factors which could lead to the arising of non-coordinated and coordinated effects. The methodology was the same for each country and we could note that when assessing the possibility of such anti-competitive effects of the merger, the arguments were quite similar:

### ***3.5.1 Non-coordinated effects of the merger in Western countries***

#### *“Substantial increment” brought by the merger*

The Commission analysed the market shares of the different parties in each country in each segment (On trade/off-trade, premium/super premium). Then outlined the market share of all the principal undertakings which were competing within each country. It summed the market share of AB InBev and SABMiller as it is considered as the most likely market share that the new undertaking (defined by the Commission as the “combined entity”) would have post-merger. The aim of the Commission here is to assess whether the increment brought by SAB to AB InBev could be defined as substantial.

In The Netherlands’s’ market (*Annex C*), the market share of SAB were considered substantial (10-20%) for the total beer market and the off-trade segment whereas the Commission considered the market share within the beer premium and super premium segment as non-substantial (0-5% in both segment). In Italy (*Annex D*), the market share of SAB was considered as substantial within all segment (10-20% in each) excepted the super-premium (0-5%) market share. In the United Kingdom (*Annex E*), SAB had substantial market share only in the super premium market (10-20%) whereas other segments had not a substantial market share (0-5%). In France, the market share of SAB in the total beer market and the super-premium segment were not substantial 0-5%.

Therefore, the market share of 5-10% and higher is considered as substantial whereas the market share of 0-5% is not. However, we will see that the Commission didn't use it in a mechanical way, analysing the substantiality of the increment in relation with the possible effect within the market structure, as analysed below.

### *Change in the market structure*

Once the Commission assessed whether the increments brought by SAB to AB InBev were substantial, it analysed whether the merger, and so the combined market share, could disturb the market competition. The methodology has not been applied mechanically by the Commission since 0-5% of market share could not be considered as substantial but could have been taken into account like an argument as it could strengthen an already strong competitor. Therefore, the most important was not the amount of the increment but how it could affect the current market structure.

In The Netherlands, the hypothetical new company's market share for the total beer market and the off-trade segment could reach respectively 30-40% and 20-30% by adding to ABI in both market the 10-20% of SAB's market shares. Within the premium and super premium segments where ABI was already dominant (repetitively 50-60% and 40-50%), the Commission considered that the increment of 0-5%, which would be - at the beginning - considered as non-substantial, could strengthen a dominant position (which would be an issue). The Commission highlighted the likely existence of an important gap between the first company's market share (SAB/ABI) and the second one (Heineken): gaps of 40-50% for premium and 50-60% for super premium. Hence the Commission concluded that the merger would strengthen the dominant position of ABI.

A similar analysis has been made in Italy where in first instance the increment (SABMiller's) within the super-premium segment was not considered as substantial until the Commission noticed that it could strengthen the dominant position of AB InBev. Both undertakings were clearly competing within the other segments with 10-20% for the total beer market and the off-trade segment and 5-10% for ABI and 10-20% for SAB within the on trade market. In this case, the merger would affect the competition as it would remove one strong competitor (SAB) from the market generating a reduction from 3 to 2 significant competitors within the off-trade segment and the total beer market and a 4 to 3 reduction within the on-trade segment (AB InBev/SABMiller, 2016 p.30).

The issue in France concerned mainly the super-premium market in which the adding of 0-5% of market share from SAB to ABI (20-30%) would let ABI/SAB become the first company. The

Commission argued that for the other segment and the total beer market, the market was already highly concentrated with 3 undertakings having more than 70% of market share.

Within the UK market, the Commission didn't consider the 0-5% that SAB would add to ABI post-merger in the total beer, the off-trade, the lager beer and the premium beer markets as ABI wasn't dominant through these markets. The issue concerned the super-premium market where 10-20% would have been added from SAB to ABI. ABI/SAB would have become the first undertaking within the super-premium segment and so there would be a change within the market structure and the gaps with the second strongest competitor would have increased.

#### *Competition between SAB and ABI products*

The Commission deeper analysed the opinions of the customers through market studies related to the competition between beers with the aims to perceive which beer(s) of SABMiller brand was(were) close competitor(s) to other beer(s) from AB InBev. In The Netherlands, customers defined Grolsch (SAB) as the closest competitor of Hertog Jan (ABI) and Jupiler (ABI). In Italy, Beck's (ABI) was a close competitor of Nastro Azzurro (SAB). In the United-Kingdom, Peroni (SAB) was a close competitor of Corona (ABI). The merger of the two undertakings would have reduced the competition as former close competitors would not have been competing anymore.

#### *Conclusion on non-coordinated effect for Western Europe countries*

When assessing a merger issue the Commission had different factors to take into consideration. First, if the merger led to a transfer of a substantial increment from one firm to another one. However, this increment had to be assessed in the whole context to see whether this increment had an effect within the market structure, by strengthening an already strong competitor for instance. Another factor considered the possible removal of competition between brands of both merging firms which were competing before the merger and would not compete anymore after that. Those brands of ABI and SAB which were competing had been assessed by market studies.

#### *3.5.2 Coordinated effects of the merger in Western countries*

The coordinated effect refers to the incentive by the undertakings to align their behaviours with the aim to increase their profits. If the incentive to coordinate become stronger after a merger, we can conclude that there is an anticompetitive effect of the merger.

At this step, the Commission needed to know in which market structure the undertakings were competing. It therefore used the market studies to assess it. The assessment of the market structure is important because the consequence of the merger would be different regarding which market companies are evolving in. A removal of an undertaking in a perfectly competitive market would have no consequence whereas a removal of an undertaking in an oligopolistic market could have a huge consequence and may lead to anticompetitive coordinated effect.

#### *Oligopolistic market and removal of a competitor*

As previously mentioned, the beer market was defined as highly concentrated. However, the Commission had to analyse in each country the main competitors and assess the market structure of the beer market. Within The Netherlands, three undertakings were strongly active (Heineken, ABI, SAB) which was also the case in Italy (Heineken, Carlsberg, ABI) and France (Carlsberg, Heineken, ABI). All the competitors in each country were evolving in an oligopolistic market and the removal of one of those players would have led to an higher likelihood of anti-competitive coordinated effects such as coordination in price.

#### *Past cartel*

The Commission also looked at past cases of cartel behaviour as it would inform about the coordination easiness through the beer market in each country. For instance, a cartel was found in 2007 in The Netherlands where three companies (Heineken, Grolsch, Bavaria) were operating a coordination in price between 1996 and 1999. Both companies were fined and forced to pay the total 274 million euros (Belleflamme & Peitz, 2015 p.382). In Italy the Commission also decided to take into consideration the opinion of the Italian Competition Authority regarding past case of acquisition: Heineken Italia/Birra Moretti concerned the acquisition by the first one of the second one. The Italian Competition Authority concluded that already at that time the acquisition could lead to an increase of the risk of coordination. The Commission thus used this argument for the present case.

#### *Price letters and standard price list*

Market investigations alerted that customers received regularly information about the new prices of the different brands products in the form of price letters. This prices letters could be used by the different undertakings to coordinate their prices and so to increase it. Prices letters were used in The Netherlands, United-Kingdom, Italy and France. As the price letters could lead to future prices coordination, the Commission determined them as a relevant argument to assess the merger case.

### *Conclusion on coordinated effect for Western Europe countries*

To assess whether the merger could lead to anti-competitive coordinated effect the Commission looked at the current market structures in which firms were evolving in each country. As we already knew that the market was highly concentrated between the same competitors (ABI, SAB, Carlsberg, Heineken), the removal of one of this undertaking increased the likelihood to coordinated effect appearance and stability (if firms were already coordinated). The Commission also used previous cases to know whether the beer market was already confronted to previous cartel, so that would indicate the ease from undertakings to coordinated behaviour within the country. It also referred to price letter as a determinant factor that could help tacit coordination.

#### *3.5.3 Molson Coors' issue*

In most of the central and eastern countries, ABI had not significant market shares whereas SAB was in most of the country the strongest undertaking within the beer market. We could have stated the market share of ABI would play a minor role when assessing the effect of the merger as in Western Europe where we would only have analysed whether the 0-5% added by ABI to SAB would reinforce an already dominant position.

Although in this case, the Commission had to consider another undertaking, Molson Coors (USA), which was active in the Central and Eastern countries and had a significant market shares in most of them. The issue raised by the Commission was that Molson Coors had “*structural link*” with ABI. Indeed, the market share from ABI (in Central and Eastern Europe) came directly from ABI’s brands sold by Molson Coors.

To understand the structural links which tied ABI and Molson Coors, we need to look back in 2009. At that time Starbev was a subsidiary from ABI and was brewing and distributing ABI brands in Central and Eastern European countries. ABI decided to sell Starbev to CVC in 2009 with the target to get more capital. Starbev/CVC carried on the distribution and the brewing of ABI brands since Starbev (which was part of Starbev/CVC) still had the license to pursue those activities. The structural link between ABI and Molson Coors started in 2012 when Starbev/CVC decided to sell the Starbev business to Molson Coors (USA). Since Starbev still had the licenses to exercise the brewing and the distribution of ABI brands, Molson Coors and ABI became “partners” at that moment.

Knowing that Molson Coors was a strong competitor of SAB in Czech Republic, Slovakia, Hungary and Romania, recognizing that after ABI and SAB merger, Molson Coors would become a partner of

the new entity ABI/SAB, Molson would not be SAB's rival anymore. Thus, we would assist to a decrease of the competition.

Therefore, the Commission analyzed the Central and Eastern European market not only taking into account the roles of ABI, SAB, Heineken, Carlsberg but also Molson Coors.

#### ***3.5.4 Non-coordinated effects of the merger in Central and Eastern countries***

##### *Substantial Increment brought by ABI to SAB*

The methodology used at this step was the same as for the Western countries: it first stated the nature of the increment brought by ABI to SAB without considering Molson Coors. The Commission again used the market share as a tool to assess it.

In Hungary and Romania, the three significant competitors were SAB, Heineken and Molson Coors whereas ABI was not active within those countries. However, Molson Coors was selling ABI brands thanks to its licenses, which explained the market shares of ABI.

In Romania, the Commission consider that an increment of 0-5% could be significant if added to an already high market share as it was the case for the total beer market (30-40%), the off-trade (30-40%) and the mainstream segment (40-50%). Within the on trade and the super-premium segment the market shares added by ABI to SAB were significant (respectively 5-10% and 10-20%). In Hungary, ABI brands sold by Molson Coors were significant for the mainstream and the premium segment (respectively 10-20% and 10-20%) whereas the market share counted for 0-5% within the super-premium segment. In Czech Republic, there were also three major brewer (SAB, Molson Coors, and Heineken). ABI's brands were sold by Molson Coors and a subsidiary, but hadn't a significant market share (0-5% in each segment). In Slovakia and Poland, ABI had low market share with also 0-5% in each segment.

##### *Change in the market structure*

After analyzing whether the market share brought by ABI to SAB was substantial, the Commission assessed whether the merger could likely change the structure of the market.

In Hungary, if we added the market share of ABI to SAB we had a clear change of the market structure as the market share of SAB/ABI would be 60-70% in the premium segment and 30-40% within the mainstream segment. SAB was strongly competing with Heineken in the mainstream segment, both having 30-40% market share. After the merger it would change the structure as SAB/ABI would

become the first undertaking in term of market share in the mainstream segment. Moreover, the gap between SAB/ABI and the other competitors' market shares would increase even more within the premium segment (a gap of 40-50%).

In Romania, the new entity (SAB/ABI) would take the lead within the on-trade and the super-premium segments which were before led by Heineken. In Czech Republic, where SAB was clearly the strongest competitor, the merger would not affect the market structure as the increments that would be transferred from ABI to SAB were limited in all segment. Actually, the strong leading position of SAB made the increment of ABI non-significant. In Slovakia and Poland, the Commission considered the increment brought by ABI (only 0-5% in each market/segment) would not have impact the structure of the market.

#### *Competition between ABI and SAB products*

The Commission assessed as it was also the case in the Western Europe countries whether specific brands of ABI were competing with specific brands from SAB with the used of the market investigation (questionnaires to customers). It founded that in Romania two beer from both undertaking were clearly competing, Beck's (ABI) and Ursus (SAB). In Hungary, the Commission, thanks to market studies, founded that Lowenbrau (ABI) was a close competitor of Kozel (SAB). Post-merger, the different beers from SAB and ABI which were competing would not compete anymore, decreasing the competition in the market and so at the same time the benefit of the consumers.

#### *The role of Molson Coors*

In Hungary, Romania and Slovakia, Molson Coors was the third strongest competitor after SAB and Heineken and the second one after SAB in Czech Republic. Molson Coors had significant market share in most of the countries and in most of the segments and thus was a strong rival of SAB, although the US undertaking wasn't active within the polish market. Therefore, the issues were the same in each country in which Molson Coors had a significant market share: the structural link between Molson Coors and ABI through the Starbev Businesses allowed the US undertaking to sell ABI brands. Thus, the Commission had to take into account this special link between ABI and Molson Coors as a merger between ABI and SAB would also mean a removal of a strong competitor as Molson Coors would not compete anymore with SAB/ABI due to an "economic dependence" (as defined by the Commission) of Molson Coors to ABI.

Moreover, both undertakings (Molson Coors and AB InBev) were performing a strategic partnership. For Instance, Molson Coors could compete in a segment in which ABI wasn't strong enough and vice versa. ABI's beer brand could therefore be complementary of the Molson Coors beer brand as it could help the latter to compete more effectively within a segment : for instance, in Romania Molson Coors was more active through the mainstream brand so the undertaking could need ABI brand (though Starbev Businesses) to compete strongly within the premium and super premium segments.

### *Conclusion non coordinated effect in Central and Eastern countries*

In most of the countries, we can see that ABI had a market share of 5-10% which was the ABI brands brewed and distributed by Molson Coors. The Commission first added this market share to the market share of SAB to see whether the firm would become dominant or strengthen its dominance within the beer market of the country. Secondly, the firm analysed segment per segment the scope of the dominance. Thirdly, the Commission analysed whether the merger would decrease the competition: we knew that Molson Coors had a structural link with ABI as it brewed and sold ABI's brand. So, by merging ABI and SAB, SAB would no compete anymore with Molson Coors. As Molson Coors was in most case a strong competitor of SAB, the competition would have decreased in a market which was already oligopolistic. Considering all those arguments the Commission define doubts about the emergence of anti-competitive effect as relevant.

### *3.5.5 Coordinated effects of the merger in Central and Eastern countries*

A few factors had been considered by the Commission to assess whether the merger would have affected negatively the competition within the beer market through the emergence of coordinated effects. Among them the likelihood of the decrease of the competition, the fact of past cartel behaviour within this market and the easiness of exchange of sensitive information between SAB/ABI and Molson Coors.

#### *Highly concentrated market*

High market shares pooled by a reduced number of firms may lead to anticompetitive coordinated effect. To assess the highly concentration within a market, the Commission considered depending on the country the current market structure (before the merger) and the hypothetical post market structure (after the merger). For instance, in Hungary, it summed the hypothetical market shares of the three top players that would be competing after the merger. The market share of the three top players (SAB/ABI,

Heineken, Molson Coors) would reach 80%. In Poland, the Commission decided to sum the market share of the three top player which were competing before the merger. The market shares reached 80%. In Romania, the Commission assessed the current market structure and whether the undertakings firms were of the same weight and truly competing. It thus perceived that only two players were truly be competing (SAB and Heineken). In Czech Republic, referring to the current market structure before merger, the Commission noticed that AB InBev was the leader with 40-50% of market share with the 2 following undertakings at a significant distance. The Slovakian market structure was characterized by one leader (Heineken) and a close competitor (SAB).

The beer market within Romania, Hungary, Poland Czech, Republic were therefore characterized as highly concentrated market so that could likely lead to anti-competitive coordinated effects such as it would be easier to coordinate their behaviour (for instance, coordination in price).

#### *“Follow the leader” strategy*

The “*follow the leader*“ strategy arises when there is one leader in the market and one or more followers. The leader fixes the prices and the other undertakings follow it. The “*follow the leader*” strategy is considered as the most useful model for price coordination for the Commission.

In Hungary, as the new undertaking SAB/ABI would become the leader (see also “*non-coordinated effect: Change in the market structure*”), the “*follow the leader*” strategy would be easier to implement. In Romania, the merger would change the market structure as the new entity (SAB/ABI) would also become the leader, again the “*follow the leader*” strategy would be easier to implement. As previously stated, the market structure in Slovakia and Czech Republic were already characterized by one leader undertaking and other followers, so this anticompetitive strategy was already more likely to arise.

#### *The role of Molson Coors post-merger*

We specified the special role of Molson Coors (see also: “*Non-coordinated effects*”) and the structural link between ABI and Molson Coors. After the merger, Molson Coors would continue its businesses in Central and Eastern European countries. The Commission stated that Molson Coors, due to its link with SAB/ABI would have more incentive not to compete anymore with the new entity. So, the Commission also determined that the merger would also lead to a “follow the leader” strategy from Molson Coors which would have the incentive to coordinate its prices to SAB/ABI’s prices. Molson Coors was active in Hungary, Czech Republic, Romania, Slovakia but not in Poland. So, in each

country where Molson Coors was active, the merger could lead to coordinated behaviour between Molson Coors and SAB/ABI.

#### *Exchange of sensitive information between ABI and Molson Coors*

As Molson Coors brewed and distributed ABI brands, it would become dependent from the new entity (ABI/SAB merged firm). As previously stated, Molson Coors could have more incentive to align its prices to ABI's prices (follow the leader strategy). Both undertakings would develop a privileged channel through the special relation between Molson Coors and ABI, allowing the two entities to exchange what the Commission defined as “*substantial information*”. This channel could lead to a price coordination process facilitation of. This issue was a typical debate in Czech Republic, Romania, Hungary, Slovakia.

#### *Evidence of past cartels*

The Commission decided also to look at the historical cases that had been cleared by the commission regarding cartels and coordination behaviour. In Czech Republic and Poland, the Commission found evidences that the undertakings were already coordinating their prices. SAB was the leader of the coordination in Poland and the Commission founded that the two strongest competitors of SAB were following the prices of SAB since 2010. Although, Carlsberg and Heineken decided to change their behaviours from 2014 and did not follow anymore SAB. Therefore, the Commission had serious doubts about SAB's real power of persuasion and retaliation.

#### *Price letters*

As it was the case in the Western Europe countries, the Commission also noticed that undertakings were using price letters to advert the customers of any changes in their prices or offers. Those price letters could thus be used by the concurrent to coordinate their prices. The issue was particularly a debate in Romania and Poland.

#### *Other possible effects of the transaction*

Other possible effects were assessed by the Commission like vertical foreclosure but the parties, which were aware of the possible issues of the merger, sent the PGM package to the Commission with solutions to clear those ones.

### *3.5.7 Solutions suggested by the Parties and assessment by the Commission*

The parties were aware of the issues that the merger could bring before submitting the willingness to merger to the assessment of the Commission. Thus, the parties sent also the PGM package with the aim to settle the different issues the Commission would raise when assessing the merger's effects. The PGM package only concerned the Western Countries. However, the Commission detected a second issue within the Eastern and Central European Countries due to Molson Coors. Therefore, the parties had to send a second package (CEE package) that aimed to figure out the latter issue.

*Solution: the PGM package for Western countries*

We have seen previously that (see also: «*Competition between SAB and ABI products*») some ABI and SAB's product were strongly competing and that the merger would incent those products not to compete anymore. The PGM package consisted of the selling of the SAB products' businesses which were competing with the ABI brands: Grolsch (The Netherlands), Peroni (Italy), Meantime Business (United Kingdom).

*Solution: the CEE package for Central/Eastern countries:*

As previously pointed out, the Commission raised some issues within the Central and Eastern countries due to the special role of Molson Coors (see also "The special role of Molson Coors"). Hence the CEE packages consisted of the divestment of SABMiller within the Eastern and Central countries we analysed (Hungary, Romania, Czech Republic, Slovakia, Poland). Some additional conditions were also added as the "*preservation of the viability, marketability, competitiveness of the divested businesses*" (AB InBev/SABMiller, 2016 p.21). As the new entity SAB/ABI wouldn't have structural link with Molson Coors, the latter would stay and act as a strong competitor and avoid to use the private channels to exchange sensitive information that might make easier the coordination neither power of retaliation.

## **4. Empirical analysis: The event study**

As previously mentioned, the beer market is well-known to be highly concentrated. SABMiller and AB InBev were large undertakings with a significant market share so we suspected that the merger could have an anti-competitive effect on the market structure of the European beer market. By reducing the number of competitors (ex: from 4 to 3 in Western countries), the firms' ability to coordinate their

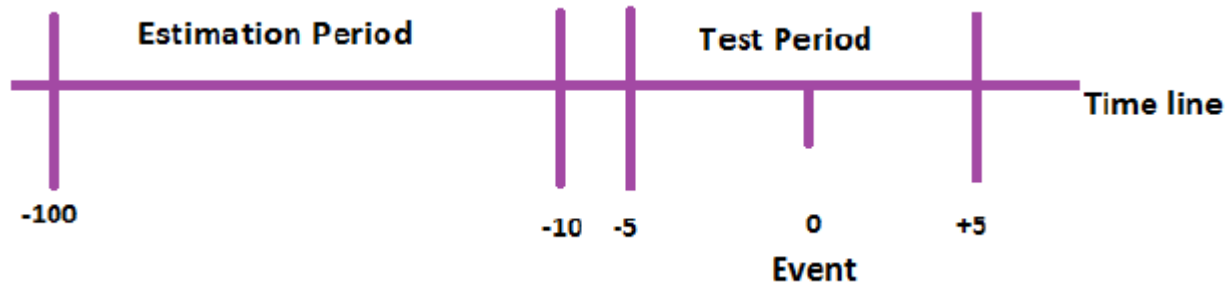
behaviours could be reinforced in a market where previous coordinating behaviours had already been tackled by the Commission. We also saw that coordinated behaviours could decrease the benefit for the consumers as firms could have the incentive to increase their prices to get more profit. To detect the possible anti-competitive effect of the merger, we decided in this section to construct an event study.

P. Belleflamme defined the event study as an “*analysis of stock market performance of merging firm and outsiders following the merger announcement and the eventual investigation and subsequent decision of the competition authority*” (Belleflamme & Peitz, 2015 p.411). To realize this event study, we referred to the paper of T. Duso : “*The Political Economy of European Merger Control: Evidence using Stock Market Data*” (Duso, Neven, & Roller, 2007) and also to the paper of N.S. Bongbee: “*Event Study on the Reaction of Stock Returns to Acquisition News*”(Bongbee & Elad, 2017).

#### **4.1 Assumptions, hypothesis and interpretation:**

Through this section we wanted to find whether the announcement of the merger by AB InBev the 12<sup>th</sup> of November 2015 influenced the stock prices of the competitors (Heineken, Carlsberg, Molson Coors). To do so, we needed several elements and hypothesis. One of these was that “*the impact of a merger on consumer surplus is directly linked to the impact on the competitors to the merging parties*” (Duso, Neven, & Roller, 2007, p.6). Therefore, we classified a pro (anti) competitive merger whether the impact of the merger on the competitors is negative (positive). T. Duso also stated that the impact could be measured through the stock prices reaction around the announcement date, which could be a good estimate of the competitors’ profits. Thus, a positive (resp. negative) reaction of the stock prices at the date of the event could be interpreted as an increase (resp. decrease) of the additional competitors’ profits and so an increase of their market power (Duso, Neven, & Roller, 2007, p.10). As the market power of the competitors would increase, the consequence would be the decrease of the consumer welfare.

## 4.2 The methodology: The event window, the estimation period and the event day:



We identified the estimation period, the test period and the event day. In our analysis, we chose the event day corresponding to the announcement date of the merger by the company AB InBev which is the 12<sup>th</sup> of November 2015. The timetable we followed for our analysis comes from the paper of S. Bongbee. The stock prices of the five undertakings (AB InBev, Heineken, Carlsberg, SABMiller, Molson Coors) were retrieved from Bloomberg. Our sample began 110 days before the announcement and 30 days following the announcement. We computed the return of the stocks for each undertaking using the following formula:

$$R = \ln(P_t/P_{t-1}) \quad (1)$$

Once the returns computed, we needed to find expected return through a linear regression (using the market model) within the estimation period (-100,-5):

$$E(R_{i,t}) = \alpha_{i,t} + \beta_{i,j} R_{m,t} \quad (2)$$

$E(R_{i,t})$  is the expected return of the firm  $i$  at the time  $t$ .  $R_{m,t}$  is the return of the market index at time  $t$ .  $\alpha_{i,t}$  and  $\beta_{i,j}$  are the parameters of the regression. The formula uses stock market index as a variable for the regression. We decided to construct our own market index using all the undertakings as they were the leaders on the European market. Thus, we could compute the abnormal return for each company using the following formula:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) = R_{i,t} - (\alpha_{i,t} + \beta_{i,j} R_{m,t}) \quad (3)$$

$AR_{i,t}$  is the abnormal return of firm  $i$  at time  $t$ .  $R_{i,t}$  is the observed return of the firm  $i$  at time  $t$ .  $E(R_{i,t})$  is the expected return of firm  $i$  at time  $t$ . We could then analyse the evolution of the competitors abnormal return around the announcement date (test period).

One way to better distinguish the progression of the abnormal return is to compute the *weighted average abnormal return* (WAAR) for the merging firms and the competitors. We thus summed the abnormal return times the market value of each firms belonging to the specified group (merging firms, competitors) and then divided result by the total market value for the specified group. Once the WAAR was obtained for each group, we decided to compute the *cumulative weighted average abnormal return* (CWAAR) within different period. We chose the 1 day, 3 days, 6 days, and 9 days around the event. The target was to perceive whether the CWAAR for the competitors was positive (which implied that the merger had an anti-competitive effect on the consumer by increasing the profit and so the market power of the competitors) or negative (which implied that the merger had a pro-competitive effect on the consumer by decreasing the profit and so the market power of the competitors). We, then, tested our results.

### 4.3 The results:

Table a: The table above shows the weighted average abnormal return of the competitors (Heineken, Carlsberg, Molson Coors) during the period [-5,+5 ].

Date	WAAR(competitors)
-5	0,0055
-4	-0,0122
-3	-0,0136
-2	0,0054
-1	0,0399
0	0,0010
1	-0,0163
2	-0,0031
3	0,0140
4	-0,0141
5	0,0015

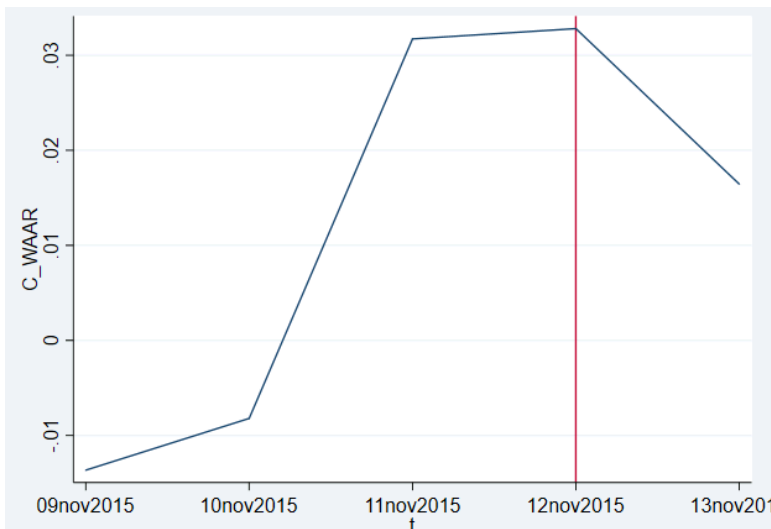
The table a shows the weighted average abnormal return of the competitors over the test period of [-5,+5 ]. We can detect that the values were negatives for the days -4 and -3 then turned positive for the days -2, -1 and for the event date. After the event date the values reverted to negatives for the days +1 and +2. Those values could give us some indications about the evolution of the abnormal return of the competitors when approaching the event date. In our case, negatives values turn positives when approaching the event date, stay positive at the event date before reverting to negatives. Using our assumptions, this would say that the merger would have a positive impact on the competitor's profit, and so their market power would increase, and the welfare of the consumer would thus decrease.

Table b: The table b represent the cumulated average abnormal returns of the competitors (Heineken, Carlsberg, Molson Coors) over different windows (test periods). We also reported the statistics associated with the values. Moreover the significance has also been reported: “\*\*\*” means that the value is significant at 5% level, “\*\*” for 10%. “\*”

Test period	CWAAR(competitors)	T-stat
[-1,+1 ]	"0,0246"	"6,66***"
[-3,+3 ]	"0,0272"	"2,0093***"
[-6, +6 ]	"-0,0058"	"0,28"
[-9, +9 ]	"-0,0626"	"-5,20"

The second table shows *cumulative weighted average abnormal returns* and the t-statistics over the different test periods. The values were positive for the test period [-1, +1 ] and [-3,+3 ] with significant t-statistics such that we could reject the null hypothesis with 95% of certitude and take the alternative (H1: X>0). Over the other test period, [-6, +6 ] and [-9, +9] the values turned back negatives and the t-statistics associated were non-significant so we couldn't reject the null hypothesis.

Graph 4.3.1: The graph represent the cumulative weighted average abnormal returns of the competitors (Heineken, Carlsberg, Molson Coors). On the Y axis, the cumulative weighted average abnormal returns. On the X axis, the dates.



The graph 4.3.1 gives us an idea about the evolution of the *cumulative weighted average abnormal returns* of the competitors (Heineken, Carlsberg and Molson Coors) from the 9<sup>th</sup> of November to the 13<sup>th</sup> of November. We clearly see that the returns started to increase considerably 2 days before the announcement date and reverted from negative to positive, changing abruptly the trend of the variable. The value stayed positive during the announcement date, then started to decrease.

## **4.4 Conclusion on our empirical analysis**

We used the event study to perceive whether the merger would be pro-competitive anti-competitive by increasing/decreasing the profit of the competitors. Given the assumptions we presented above, an increase (decrease) of the profit could lead to an increase of the market power for those undertakings. We could detect that the result we obtained led to the conclusion that the merger was anti-competitive. Based on our analysis, at the time of the announcement by AB InBev of its will to acquire SABMiller, the merger couldn't be accepted by the Commission given the specified context at that time. However, we must add to our analysis that from the date of the announcement (12<sup>th</sup> of November 2015) and the day of the authorization of the merger by the Commission (24 May 2016) some issues had been cleared by AB InBev and SAB Miller. We saw in the first chapters of our work that the Commission had serious doubts about the advent of non-coordinated and coordinated effects within the Western, the Central and Eastern European countries. So, the parties, which knew that those doubts could occur decided to present the PGM package (see chapter above) with the intention to clear all the doubts about the possible anti-competitive effect of the merger within the Western Countries. The Commission had also doubt about the Central and Eastern market due to the structural link that existed between Molson Coors and AB InBev, so the parties also had to transmit a second package of solutions to clear those doubts. The two packages were considered as reassuring enough by the Commission to allow the merger. That reason could explain the difference between the conclusion of anti-competitive effect (and so that the merger had to be blocked) and the decision of the Commission the 24<sup>th</sup> of May 2016 to accept the merger.

## **Conclusion:**

Through our work, we wanted to analyse the methodology used by the Commission to assess a type of merger case, which was in this case the horizontal merger case between AB InBev and SABMiller. We could perceive that all the tools and factors that the Commission took into account weren't used in a mechanical way even if a general framework, the Horizontal Merger Guidelines (HMG), was followed by the Commission. The most important tool was the market share which constituted the main element which helped to assess in which market structure we were evolving (oligopolistic in this case), to perceive the repartition of the market power between each undertakings, the hypothetical market share that the different undertakings would have post-merger, the likelihood of a changing of the market structure that would favour the emergence of anti-competitive coordinated and non-coordinated effect. Therefore, the market share had a central role within the assessment. The Commission also referred to former decisions to know whether the market within the country analysed was already subject to coordinated behaviours, which could generate an easier cartel construction. Questionnaires to customers and questionnaires to competitors were also important to determine whether brands of the two merging firms were competitors (which was an issue in case of merger) or also in term of the definition of the relevant product and geographical market. Price letters, barriers to entry were other factor that the Commission had to take into consideration when assessing the case.

We also decided in our work to conduct an event study to know whether the merger would have a positive impact on the competitors using the stock prices of the different undertakings and analysing their conduct around the 12<sup>th</sup> of November, which was the date of the announcement of the merger. After setting several assumptions and hypothesis concerning the link between the stock prices' change and the pro (anti) competitiveness of a merger, our result described that the merger was anti-competitive as it would increase the profit of the competitors and so their market power and reduce the welfare on the consumer. The Commission however decided to accept the merger on the 24<sup>th</sup> of May 2016 after several requirement asked to the merging parties (the PGM and the CEE package).

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## Annexes (online):

Annexe A: The Parties' market shares in the EEA countries (2014)

	Total country		AB InBev	SAB	Heineken	Carlsberg	Molson Coors	Local Champion	Others
	Value (€m)	Volume ('000 HL)	Value (%)	Value (%)	Value (%)	Value (%)	Value (%)	Value (%)	Value (%)
AT	3,596	9,145	[0-5]	[0-5]	[40-50]	[0-5]	[0-5]	[10-20]	[30-40]
BE	4,655	8,095	[50-60]	[0-5]	[5-10]	[0-5]	[0-5]	[5-10]	[20-30]
BG	429	5,027	[0-5]	[0-5]	[30-40]	[10-20]	[30-40]	[5-10]	[10-20]
HR	785	3,086	[5-10]	[0-5]	[20-30]	[10-20]	[30-40]	[0-5]	[10-20]
CY	226	450	[0-5]	[0-5]	[5-10]	[30-40]	[0-5]	[20-30]	[20-30]
CZ	2,241	14,638	[0-5]	[40-50]	[10-20]	[0-5]	[10-20]	[5-10]	[20-30]
DK	1,485	3,496	[0-5]	[0-5]	[0-5]	[50-60]	[0-5]	[10-20]	[20-30]
EE	190	1,230	[0-5]	[0-5]	[0-5]	[30-40]	[0-5]	[40-50]	[10-20]
FI	3,103	4,304	[0-5]	[0-5]	[0-5]	[40-50]	[0-5]	[10-20]	[20-30]
FR	9,351	19,243	[10-20]	[0-5]	[20-30]	[30-40]	[0-5]	[0-5]	[10-20]
DE	29,231	84,414	[10-20]	[0-5]	[0-5]	[0-5]	[0-5]	[10-20]	[70-80]
EL	1,778	3,931	[0-5]	[0-5]	[50-60]	[5-10]	[0-5]	[10-20]	[10-20]
HU	1,233	6,257	[5-10]	[20-30]	[30-40]	[0-5]	[10-20]	[0-5]	[10-20]
IE	2,815	4,536	[10-20]	[0-5]	[20-30]	[5-10]	[5-10]	[30-40]	[10-20]
IT	9,283	16,781	[10-20]	[10-20]	[20-30]	[5-10]	[0-5]	[5-10]	[30-40]
LV	331	1,556	[0-5]	[0-5]	[0-5]	[20-30]	[0-5]	[20-30]	[40-50]
LT	365	2,817	[0-5]	[0-5]	[0-5]	[50-60]	[0-5]	[10-20]	[20-30]
LU	317	472	[40-50]	[0-5]	?	?	[0-5]	?	[50-60]
MT	113	207	[0-5]	[0-5]	[0-5]	[5-10]	[0-5]	[50-60]	[30-40]
NL	6,413	12,045	[20-30]	[10-20]	[40-50]	[0-5]	[0-5]	[0-5]	[10-20]
PL	6,235	37,760	[0-5]	[30-40]	[20-30]	[10-20]	[0-5]	[0-5]	[10-20]
PT	2,070	4,838	[0-5]	[0-5]	[40-50]	[40-50]	[0-5]	[0-5]	[0-5]
RO	3,002	16,888	[0-5]	[30-40]	[30-40]	[5-10]	[5-10]	[5-10]	[5-10]
SK	683	4,017	[0-5]	[30-40]	[30-40]	[0-5]	[5-10]	[0-5]	[20-30]
SI	434	1,550	[0-5]	[0-5]	[70-80]	[0-5]	[0-5]	[0-5]	[10-20]
ES	15,662	37,289	[0-5]	[0-5]	[30-40]	[0-5]	[0-5]	[30-40]	[30-40]
SE	2,240	4,702	[0-5]	[0-5]	[5-10]	[20-30]	[0-5]	[20-30]	[30-40]
UK	23,270	45,442	[10-20]	[0-5]	[20-30]	[10-20]	[10-20]	[5-10]	[20-30]

Annexe B: The Parties' and their competitors' market shares in Belgium (2014)

Market shares by value 2014	Total beer (%)	Total beer off-trade (%)	Total beer on-trade (%)
ABI	[50-60]	[50-60]	[50-60]
SAB	[0-5]	[0-5]	[0-5]
<b>Combined</b>	<b>[50-60]</b>	<b>[50-60]</b>	<b>[50-60]</b>
Heineken	[5-10]	[5-10]	[10-20]
Duvel Moortgat	[5-10]	[5-10]	[10-20]
Haacht	[0-5]	[0-5]	NA
Palm	[0-5]	NA	[0-5]
Others	[20-30]	[20-30]	[10-20]

Source: Form CO

Annexe C: The Parties' and their competitors' market shares in The Netherlands (2014)

Market shares by value 2014	Total beer (%)	Total beer off-trade (%)	Total beer premium (%)	Total super premium (%)
ABI	[20-30]	[10-20]	[50-60]	[40-50]
SAB	[10-20]	[10-20]	[0-5]	[0-5]
<b>Combined</b>	<b>[30-40]</b>	<b>[20-30]</b>	<b>[60-70]</b>	<b>[40-50]</b>
Heineken	[40-50]	[30-40]	[10-20]	[5-10]
Bavaria	[0-5]	[5-10]	NA	[0-5]
Duvel Moortgat	NA	NA	NA	[10-20]
Tr Westmalle	NA	NA	NA	[5-10]
Carlsberg	NA	NA	NA	[0-5]
Warsteiner Brauerei Haus Cramer	[0-5]	[0-5]	[10-20]	NA
Diageo	NA	NA	NA	[0-5]
Palm	NA	NA	5.2	NA
Aldi	[0-5]	NA	NA	NA
Oettinger	NA	[0-5]	NA	NA
Private label	NA	[10-20]	NA	NA
Others	[10-20]	[5-10]	[0-5]	[10-20]

Source: Form CO

Annexe D: The Parties' and their competitors' market shares in Italy (2014)

Market shares by value 2014	Total beer (%)	Total beer on-trade (%)	Total beer off-trade (%)	Total super premium (%)
ABI	[10-20]	[5-10]	[10-20]	[30-40]
SAB	[10-20]	[10-20]	[10-20]	[0-5]
<b>Combined</b>	<b>[20-30]</b>	<b>[20-30]</b>	<b>[20-30]</b>	<b>[30-40]</b>
Heineken	[20-30]	[20-30]	[30-40]	[5-10]
Carlsberg	[5-10]	[5-10]	[5-10]	[5-10]
Private label	NA	NA	[5-10]	NA
Bavaria	[0-5]	NA	[5-10]	[5-10]
Ceres Italia	NA	[5-10]	[5-10]	NA
Forst	[5-10]	[5-10]	[5-10]	[5-10]
Royal Unibrew	[5-10]	NA	NA	[10-20]
Brau Holding	[5-10]	[5-10]	NA	[5-10]
Others	[20-30]	[20-30]	[10-20]	[20-30]

Source: Form CO

Annexe E: The Parties' and their competitors' market shares in the United Kingdom (2014)

Market shares by value 2014	Total beer (%)	Total off-trade (%)	Total lager beer (%)	Total premium (%)	Total super-premium (%)
AB InBev	[10-20]	[20-30]	[20-30]	[20-30]	[10-20]
SAB	[0-5]	[0-5]	[0-5]	[0-5]	[10-20]
<b>Combined</b>	<b>[20-30]</b>	<b>[30-40]</b>	<b>[20-30]</b>	<b>[20-30]</b>	<b>[30-40]</b>
Molson Coors	[10-20]	[10-20]	[20-30]	[5-10]	[5-10]
Heineken	[20-30]	[20-30]	[20-30]	[5-10]	[10-20]
Carlsberg	[10-20]	[10-20]	[10-20]	[10-20]	[5-10]
Diageo Plc, UK	[5-10]	[0-5]	[0-5]	[10-20]	[5-10]
C&C Group	[0-5]	[0-5]	[0-5]		[0-5]
Greene King	[0-5]	[0-5]		[0-5]	
Mahou-San Miguel	[0-5]	[0-5]	[0-5]		[10-20]
Marston's	[0-5]	[0-5]		[0-5]	
Charles Wells	[0-5]	NA		[0-5]	[0-5]
Others	[10-20]4	[5-10]	[5-10]	[10-20]	[10-20]

Source: Form CO

Annexe F: The Parties' and their competitors' market shares in Hungary (2014)

	Mainstream		Int. Value[2]	Premium		
	Form CO	Alternative[1]	Alternative	Form CO	Alternative	
					Premium	Super Premium
AB InBev	[0-5]%	[10-20]%	[40-50]%	[40-50]%	[10-20]%	[0-5]%
SAB	[30-40]%	[20-30]%	[10-20]%	[30-40]%	[40-50]%	[10-20]%
<b>Combined</b>	<b>[30-40]%</b>	<b>[30-40]%</b>	<b>[50-60]%</b>	<b>[70-80]%</b>	<b>[60-70]%</b>	<b>[10-20]%</b>
Heineken	[30-40]%	[30-40]%	[30-40]%	[5-10]%	[10-20]%	[70-80]%
Carlsberg	[0-5]%	[0-5]%	[0-5]%	[5-10]%	[10-20]%	[5-10]%
Molson Coors	[20-30]%	[20-30]%	[0-5]%	[5-10]%	[5-10]%	[0-5]%
Others	[5-10]%	[10-20]%	[10-20]%	[5-10]%	[5-10]%	[0-5]%

[1] Including Löwenbräu.

[2] Comprising the following brands: Kozel (SAB), Steffl (Heineken), Löwenbräu (ABI), [Details of SAB's activities in Hungary].

Annexe G: The Parties' and their competitors' market shares in Romania (2014)

Market shares by value 2014	Total beer (%)	Total beer on-trade (%)	Total beer off-trade (%)	Total mainstream (%)	Total super premium (%)
ABI	[0-5]	[5-10]	[0-5]	[0-5]	[10-20]
SAB	[30-40]	[30-40]	[30-40]	[40-50]	[30-40]
<b>Combined</b>	<b>[30-40]</b>	<b>[40-50]1</b>	<b>[30-40]</b>	<b>[40-50]</b>	<b>[40-50]</b>
Heineken	[30-40]	[30-40]	[30-40]	[10-20]	[30-40]
Molson Coors	[5-10]	[10-20]	[10-20]	[5-10]	[0-5]
Carlsberg	[5-10]	[5-10]	[5-10]	[5-10]	[10-20]
Romaqua	[5-10]	[0-5]	[0-5]	[5-10]	NA
European Drinks	[0-5]	[0-5]	[0-5]	[5-10]	NA
Private label	NA	NA	[0-5]	NA	NA
Bermas Suceava	[0-5]	[0-5]	NA	[0-5]	NA
Others	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]

Source: Form CO

Annexe H: The Parties' and their competitors' market shares in Czech Republic (2014)

Market shares by value 2014	Total beer (%)	Total beer on-trade (%)	Total beer off-trade (%)	Super premium segment
ABI	[0-5]%	[0-5]%	[0-5]%	[0-5]%
SAB	[40-50]%	[40-50]%	[40-50]%	[40-50]%
<b>Combined</b>	<b>[40-50]%</b>	<b>[40-50]%</b>	<b>[40-50]%</b>	<b>[40-50]%</b>
Molson Coors	[10-20]%	[10-20]%	[10-20]%	[5-10]%
Heineken	[10-20]%	[10-20]%	[10-20]%	[0-5]%
Lobkowicz	[5-10]%	[10-20]%	[0-5]%	[10-20]%
Budejovicky Budvar	[0-5]%	[0-5]%	[5-10]%	[0-5]%
Others	[10-20]%	[10-20]%	[10-20]%	[30-40]%

Source: Form CO

Annexe I: The Parties' and their competitors' market shares in Slovakia (2014)

Market shares by value 2014	Total beer (%)	Total beer on-trade (%)	Total beer off-trade (%)
ABI	[0-5]%	[0-5]%	[0-5]%
SAB	[30-40]%	[10-20]%	[40-50]%
<b>Combined</b>	<b>[30-40]%</b>	<b>[10-20]%</b>	<b>[40-50]%</b>
Heineken	[30-40]%	[20-30]%	[40-50]%
Molson Coors	[5-10]%	[5-10]%	[0-5]%
Endemit London	[0-5]%	[5-10]%	[0-5]%
Budejovicky Budvar	[0-5]%	[0-5]%	[0-5]%
Others	[10-20]%	[30-40]%	[5-10]%

Source: Form CO

Annexe J: The Parties' and their competitors' market shares in Poland (2014)

Market shares by value 2014	Total beer (%)	Total beer on-trade (%)	Total beer off-trade (%)
ABI	[0-5]	[0-5]	[0-5]
SAB	[30-40]	[40-50]	[30-40]
<b>Combined</b>	<b>[30-40]</b>	<b>[40-50]</b>	<b>[30-40]</b>
Heineken	[20-30]	[30-40]	[20-30]
Carlsberg	[10-20]	[5-10]	[20-30]
Van Pur	[0-5]	[5-10]	[0-5]
Perla Browary Lubelskie	[0-5]	NA	[0-5]
Others	[10-20]	[10-20]	[10-20]

Source: Form CO