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Bidding analysis after GE/Alstom

Jan Peter van der Veer (RBB Economics) · Thursday, August 25th, 2016

Following the Commission decision in the *GE/Alstom* case, members of the Chief Economist Team have, on a number of occasions, publicly commented on the bidding analysis undertaken in this case. During these interventions, they have signalled that the analysis undertaken in *GE/Alstom* represents an important framework for the future competitive assessment of mergers involving bidding markets.

Bidding analysis can be used to assess whether a proposed merger is likely to result in the elimination of each party's closest competitor. Where sufficient data are available, bidding data can also be used to evaluate the impact of a proposed merger on price. This blog post provides a high-level overview of the various bidding analyses that the Commission may undertake.

Participation analyses

An initial question that the Commission will consider in markets characterised by bidding procedures is whether the parties face each other particularly often. Since bidding in tenders is costly, firms normally only take the effort of bidding if they think they stand a realistic chance of winning the tender. If particular rivals often refrain from participating in tenders where both A and B bid, this may indicate that these rivals do not consider themselves sufficiently competitive for those tenders. As such, firms A and B are more likely to be each other's closest competitors when A competes much more often against B than against other rivals. This applies even more so if firms A and B are the *only* two bidders in a significant proportion of tenders.

Win-loss and runner-up analysis

The Commission is also likely to undertake a win-loss analysis. In particular, the Commission will consider how often the merging parties lose to each other in tenders where they both bid. If A and B win a high proportion of tenders for which they both bid, the Commission may take this as another indication that rivals are not sufficiently competitive for these tenders. In such cases, Firms A and B may be each other's closest competitor. If, conversely, rivals often win tenders in which A and B both bid, the Commission may take this as indication that A and B are not close competitors.

Depending on the way auctions are structured in the industry in question, the Commission may also undertake a runner-up analysis. A merger between two firms that often rank second behind each other is more likely to affect market outcomes than a merger between two firms that typically face other rivals at the last stage of negotiations. Consequently, when firms A and B often are the runner-up behind each other, they are more likely to represent each other's closest competitors.

Probit and margin analysis

In some cases, the Commission may undertake more sophisticated empirical analyses to assess closeness of competition as well as the potential impact of the merger on price. In particular, the Commission may assess whether the parties have a lower probability of winning when they face each other (a “probit analysis”) and whether the parties accept lower margins when they face each other (a “margin concentration analysis”). These more sophisticated analyses can only be undertaken if particularly rich data are available. In some cases, such analyses may indicate that a merger could give rise to price increases even if the merging parties are not each other’s closest competitor.

Discussion

All analyses set out above rely on the assumption that historic bidding data represent a reliable basis for assessing the impact of a merger on future tenders. Whilst this may represent a reasonable assumption in a static setting, a static analysis may lead to a biased assessment if important developments have occurred in recent times.

That said, there is no doubt that the bidding analysis undertaken in the *GE/Alstom* case represents an important framework for the competitive assessment of mergers in bidding markets going forward.

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“>Mergers
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