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The GM/ZF (1993) Complaint

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In 1992, General Motors proposed to sell its Allison Transmission Division to ZF Friedrichshafen. On 16 November, 1993, the Department of Justice filed a complaint under the Clayton Act, raising concerns about the competitive harm the proposed acquisition would have on the manufacture and sale of medium and heavy automatic transmissions. A few days later, GM and ZF abandoned the acquisition.

The Department of Justice (DOJ) challenged the acquisition by alleging harm to competition in two product markets, namely the US market for automatic transmissions for transit buses and the US market for automatic transmissions for refuse trucks. However, another part of the DOJ's theory of competitive harm was that the acquisition would result in the loss of innovation benefits. For this, the DOJ defined a third market: a worldwide "innovation market". Below is an overview of how the DOJ arrived at the three relevant markets.

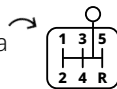
THE DOJ'S MARKET DEFINITION

Allison (GM) and ZF both manufacture and sell **transmissions**.

> Transmissions transfer power from the engine to the wheels. There are two main types:

1 Manual transmissions

Drivers have to change gears with a mechanical clutch and gear selector



2 Automatic transmissions

Gears are changed automatically in response to changes in engine speed



The DOJ made a few additional observations regarding **automatic transmissions**:

> Depending on the customer's intended use, automatics offer certain advantages over manuals:

> For stop-and-go driving, automatics yield savings in maintenance costs, driver training and operational efficiency. →

key examples

garbage trucks

transit buses

> When safety and comfort are important, automatics allow drivers to better concentrate on traffic and passenger conditions. →

> For several uses, commercial and military customers only choose automatics, even though they are twice as expensive as manuals.

> Automatics vary substantially according to the vehicle involved (e.g., in size, gear ratios and other features).

> Allison (GM) and ZF design their automatics specifically for specific uses, they set prices and warranties separately for specific uses and they track sales and repairs records separately for specific uses.

Based on these observations, the DOJ defined the following three markets:

relevant market #1

The manufacture and sale of automatic transmissions for transit buses

geographic market:

> Companies in the market: Allison (GM), ZF and J.M. Voith.

> The transaction would be a 3-to-2 acquisition. Combined, ZF and Allison (GM) control approx. 78% of all sales.

> ZF has been particularly aggressive competing against Allison (GM). Higher prices will follow.

> The entry of new competitors such that a small but significant and non-transitory price increase is counteracted or deterred is unlikely due to the substantial up-front investments and reputation needed to enter.

relevant market #2

The manufacture and sale of automatic transmissions for heavy refuse route trucks

geographic market:

> Companies in the market: Allison (GM) and ZF.

> The transaction would be an acquisition to monopoly.

> Higher prices and less service will follow.

> No competitor will enter the market such that a small but significant and non-transitory price increase is counteracted or deterred.

relevant market #3

Technological innovation in the design, development and production of medium and heavy automatic transmissions for commercial and military vehicles

geographic market:

> Technological innovation in *manual* transmissions is not a substitute. Also, there is a distinct, identifiable, and substantial group of customers who purchase automatics and would not switch to manuals.

> Companies in the market: Allison (GM), ZF and J.M. Voith.

> The transaction would be a 3-to-2 acquisition. Also, J.M. Voith is a less effective competitor than either Allison (GM) or ZF as it focuses only on bus transmissions.

> Purchasers of automatics will be denied better products, new innovative products, improved manufacturing processes and lower prices.

> No competitor will enter the market such that the significant competition that would be lost would be restored as companies need, i.e., a full scale automatic transmission production facility and substantial experience.

RESOLUTION OF THE CASE

A few days after the DOJ filed its complaint, GM and ZF issued a joint statement announcing they were abandoning the transaction. The parties did stress their disagreement with the DOJ's opposition to the acquisition, stating that "the government took a very narrow view of competition in the market and one that does not reflect commercial reality."