Proposed Halliburton-Baker Hughes Merger

Jeffrey S. Jacobovitz

A proposed $34.6 billion dollar merger was announced last week involving Halliburton and Baker Hughes. The combination of the two companies would create a powerful company in the oil-services business. A key issue would be whether the Department of Justice and the Federal Trade Commission would approve the deal after considering the antitrust ramifications of the combination.

The regulators could look at a number of factors in assessing the deal.[1]

- Are there any cost savings?
- Do the businesses overlap in many markets which would create substantial market power?
- Are there efficiencies for the consumer of these products? Would there be cost synergies?
- Could the companies divest assets to a willing buyer to assuage the concerns of the government regulators?

The deal will affect competition with Schlumberger NV as well as oil field companies in North Dakota. Market share numbers in North Dakota will be significant to the government evaluation. Product market analysis of markets shares will include hydraulic fracturing and directional drilling. The government will also analyze whether higher prices could result to oil producers.

Recently, the antitrust authorities have become more aggressive in challenging mergers. The FTC will now likely issue a second request for additional documentation regarding the proposed merger and proceed with their evaluation. The Government will then negotiate with the parties and determine whether they would want to proceed with a court injunction action.

As a side note, if the merger agreement does not go through, there would be significant break-up fees to be paid. These payments would range from $1 billion to $3.5 billion.

1 See http://online.wsj.com/articles/halliburton-baker-hughes-deal-could-face-antitrust-hurdles-1416256786. AGG Partner, Jeffrey Jacobovitz, was quoted in this Wall St. Journal article assessing the antitrust issues the merging parties may face.

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