The Anatomy of the GE-Honeywell Disaster

By Michael Elliott | Sunday, July 08, 2001

TONY DEJAK/AP

General Electric Co. Chairman Jack Welch

On the evening of Wednesday, June 13, Jack Welch, CEO of General Electric, retreated to his room at the Conrad Hilton hotel in Brussels and wrestled with an unfamiliar feeling — one of impending defeat. Just eight months before, he had, it seemed, pulled off a stunning coup. Welch had always coveted Honeywell International, whose business making advanced electronics for the aviation industry, he thought, made a perfect fit with GE, one of three leading global manufacturers of airplane engines. In October 2000, during a visit to the New York Stock Exchange, he had learned that United Technologies Corp. — whose Pratt & Whitney division is another huge enginemaker — planned to buy Honeywell. Within 45 minutes, on the phone from his car, Welch had lined up his board to make a counter-offer. Two days later he had Honeywell in the bag; it would be the largest ever merger between two industrial companies. Welch delayed his retirement to oversee the integration of GE and Honeywell — and to set the capstone on his legendary career.

And now, in the European capital, his last big deal was falling apart. On that day in June, Welch had met twice with Mario Monti, the European Union's Commissioner for Competition. Monti believed that the combination of Honeywell's cockpit controls with GE's engines and powerful aircraft financing division would stifle competition. In other words, he viewed with suspicion precisely those synergies that, for Welch, made the deal so attractive. Monti would approve the merger only if Welch made the kind of concessions that, from GE's standpoint, wrecked its whole point. The next morning Monti called Welch once more, to discuss how the apparent breakdown in talks should be handled. GE issued a statement saying that attempts at compromise fell "far short" of Monti's "extraordinary demands."

Welch placed a call to Andrew Card, chief of staff to President Bush, who was about to sit down with European leaders in Goteborg, Sweden. As the GE boss recounted the conversation to TIME, he told Card that he would appreciate "whatever help you can give us." In the formal meetings in Sweden, GE never came up. But on June 15, in Warsaw, Bush said he was "concerned" that the Europeans had rejected the merger. Monti was furious — not with Bush, he told TIME, but with those who had sought the President's help. Three days later Monti said he "deplore[d] attempts to... trigger political intervention." And though the case dragged on for two more weeks, the deal was dying a slow death.

global market can now be governed in all they do by any of the countries or regions in which they do business. There's no settled code of rules in the global marketplace, just a haphazard collection of local practices and habits. Still, the GE case is extraordinary. Never before have officials outside the U.S. nixed a merger between two giant American corporations already approved by the DOJ. Never before have U.S. companies lobbied so ferociously against their U.S. rivals in a foreign capital. And that's why, for any company that seeks to profit from globalization, there are abundant lessons in the story of how Jack fell down.

For months, nobody thought he would. After Welch stole Honeywell from United Technologies, he said: "This is the cleanest deal you'll ever see." Honeywell and GE were both industrial conglomerates, but their product lines had few overlaps. A combined company, however, would be a powerful force. So United Technologies, Rolls-Royce of Britain — the third of the trio that dominates jet engines — and other businesses were determined to stop the deal.

They didn't find the going easy on either side of the Atlantic. "At the beginning, we weren't invited in the front door or the back door," says an executive with a competitor. (With legal actions still a possibility, many of those interviewed for this story insisted on anonymity.) In Washington, the antitrust division of Justice would wait until June 14 for the arrival of a new head — Charles James, Bush's nominee, who was considered to be probusiness. "The DOJ would not and did not meet with us," says John Briggs, who represented Rockwell, an American competitor of Honeywell. "There was just no real constituency for taking on Jack Welch without political leadership in place."

Things looked no better in Brussels. Since 1990 the European Commission, the executive arm of the 15-nation European Union, has exercised jurisdiction over all mergers between firms with combined revenues of $4.2 billion, of which $212 million must be within Europe. The GE-Honeywell deal easily met the criteria. When U.S. lawmakers ask what business it is of the Europeans if two U.S. companies want to merge, part of the answer is that GE alone employs 85,000 people in Europe and collected $25 billion in revenue there last year.

Still, Commissioner Monti wasn't looking for a fight. The Italian economics professor is sufficiently conservative that he was offered the foreign ministry in Silvio Berlusconi's new right-wing Italian government. Moreover, Monti was proud of the working relationship he had forged with his American counterparts; he told TIME he had "profound respect" for the U.S. regulators and described his own agency as a "junior institution." Before Christmas, when GE's competitors called on the case officer assigned to the merger, Enrique Gonzalez-Diaz, to persuade him to start a lengthy "phase two" investigation of the deal, Gonzalez-Diaz accused them of whining.

That wasn't good. For the merging companies and their opponents, Gonzalez-Diaz was the man to see. The Spaniard, 39, a native of the Canary Islands, is known as a brilliant mathematician and lawyer, hardworking and intensely ambitious. One source (on the losing side of this case) also calls him "deeply cynical about the motivation

allowing GE to "bundle" engines and avionics in packages that other firms couldn't match, and United Technologies concentrated on GE's role as a buyer of planes through GE Capital Aviation Services, its finance and leasing subsidiary. GECAS, it was argued, would insist that those from whom it bought aircraft should buy both GE engines and Honeywell avionics, hence reducing consumer choice and stifling technological innovation.

"I got the impression that Enrique was interested when we explained to him that GECAS was frequently a launch customer for airplanes," said a lawyer. "He said, 'Really? I thought they only dealt in secondhand machines.'" GECAS, according to Welch, has only an 8% share of the new-plane market. Yet GE's competitors were starting to make headway. GE, for its part, was beginning to discover that while Monti was always a gentleman, his staff could be as hard as nails. On Feb. 26, all parties met in Brussels. Monti, said Welch, "listened carefully to our case ...I thought we had a shot." But at 6:30 that evening, GE and Honeywell were called back to the Commission's offices. Armed with answers to the detailed questionnaires Gonzalez-Diaz's staff had sent to competitors and customers, Monti was going to phase two, a full-blown investigation.

The European capital then experienced the most intense politicking old hands there have seen. "There were journalists, lobbyists and lots of arbitragers from Wall Street calling constantly," says a lawyer.

Gonzalez-Diaz's team visited Rockwell's operations in Cedar Rapids, Iowa. By this point, sources close to the case say, Monti's team had not only heard an earful from GE's competitors but had also registered concerns from 15 airlines, whose identities were kept secret from GE. On May 8, the Commission issued a 155-page statement of objections to the merger, and on May 29, the parties gathered for a two-day hearing.

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