

Mergers: Commission approves acquisition of Red Hat by IBM

The European Commission has approved unconditionally, under the EU Merger Regulation, the proposed acquisition of Red Hat by IBM, both information technology companies based in the US. The Commission concluded that the transaction would raise no competition concerns.

Red Hat and IBM both sell information technology (“IT”) solutions to enterprise customers. Red Hat’s main activities relate to open-source software and support services, while IBM is active in a wide variety of IT solutions, namely enterprise IT software, hardware and services.

The Commission’s investigation

During its investigation, the Commission assessed:

- The impact of the proposed transaction on the markets for **middleware and system infrastructure software**, where the activities of IBM and Red Hat overlap. Middleware is software used for making and operating enterprise application software, i.e. business-oriented tools, such as online payment processing. System infrastructure software allows companies to configure, control, automate and share the use of hardware resources (e.g. servers) across enterprise application software. The Commission found that the merged entity would **continue to face significant competition from other players** in all potential markets.
- Whether there would be a risk of weakened competition if IBM or Red Hat leveraged their respective positions into neighbouring markets. In particular, the Commission assessed whether IBM could significantly reduce the competitiveness of its rivals’ offerings by degrading their interoperability with Red Hat’s flagship product **Red Hat Enterprise Linux**. The Commission concluded that the merged entity would not have sufficient market power to shut out or marginalise its competitors by bundling or degrading interoperability. Moreover, as the success of Red Hat significantly hinges on its neutrality, any strategy impairing this neutrality would likely damage Red Hat’s business, by shifting the focus of customers, developers and partners alike to competing open-source solutions.
- Whether the merged entity would be likely to degrade access to **Red Hat’s source code** and/or influence the development of specific **open source projects** in order to ease (actual or potential) competition on its products. The Commission found that any such strategies would trigger strong adverse counter-reactions from the open source community of developers that would negatively affect Red Hat’s products.

In addition, the Commission took note of the potential pro-competitive rationale of this acquisition. This reflects, in particular, IBM’s intention to use the complementary capabilities of Red Hat to further develop and offer open hybrid cloud solutions. This would increase choice for enterprise

customers who could more easily shift workloads between on premise servers and multiple public and private clouds.

Therefore, the Commission concluded that the transaction would raise no competition concerns in any of the affected markets and cleared the case unconditionally.

Companies and products

IBM is a US based company active worldwide in the development, production, and marketing of a wide variety of IT solutions, namely enterprise IT software, IT hardware and IT services.

Red Hat is a US based company active worldwide in the provision of open-source software and support services.

Merger control rules and procedures

The transaction was notified to the Commission on 20 May 2019.

The Commission has the duty to assess mergers and acquisitions involving companies with a turnover above certain thresholds (see Article 1 of the [Merger Regulation](#)) and to prevent concentrations that would significantly impede effective competition in the EEA or any substantial part of it. The vast majority of mergers do not pose competition problems and are cleared after a routine review.

From the moment a transaction is notified, the Commission generally has a total of 25 working days to decide whether to grant approval (Phase I) or to start an in-depth investigation (Phase II).

More information will be available on the [Competition](#) website, in the Commission's [public case register](#) under the case number [M.9205](#).