where the terms in the third line represent the net contribution, β, of the acquired shares to Firm A's gains from cutting prices.[14] From here it is possible to reevaluate the "no defection" condition outlined in (1) above with this new consideration. From (2) above,

$$\delta \geq \frac{\pi_a(P_d,P_c) - \pi_a(P_c,P_c) - \beta[\pi_b(P_c,P_c)-\pi_b(P_c,P_d)]}{\pi_a(P_d,P_c) - \pi_a(P_c,P_c) - \beta[\pi_b(P_d,P_d)-\pi_b(P_c,P_d)]} \qquad (3)$$

The rightmost terms in both the denominator and numerator are infinite convergent series due to the infinite stage nature of the game. Call it $S(\pi_b,P)$ or S_b. Thus, the equilibrium condition under the partial equity position is,

$$\delta \geq \frac{\pi_a(P_d,P_c) - \pi_a(P_c,P_c) - \beta S_b}{\pi_a(P_d,P_c) - \pi_a(P_c,P_c) - \beta S_b^o} \qquad (4)$$

This implies that the larger the loss to Firm B if A defects, i.e. the potential loss brought about by A's price-cutting action, the less likely - in terms of reduced incentives, other things being equal, will unilateral price-cutting yield a gain to Firm A.

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[14] The model assumes that increases in Firm B's gross earnings accrue fully to shareholders.

The British Petroleum-Kuwait Investment Office Case

In early 1987 the British government announced that it intended to sell of its 31.5% remaining stake in BP.[15] The KIO, which had stated on several occasions that it had no intention of seeking any influence on BP's management, bought up stock to a level of 21.6% of the total shares outstanding.[16] The Monopolies and Mergers Commission however, ruled that KIO's interest in BP "may be expected to operate against the public interest," (MMC, 1988,p.2 and p.46) and ordered the KIO to reduce their holdings down to 9.9%. While clearly limited in scope the approach proposed here can nonetheless offer some insight into the anticompetitive concerns of this case.

The main competitive overlaps between KIO through the Kuwait Petroleum Corporation ("KPC") were refining and distribution.[17] In 1987, BP Oil International's[18] ("BPOI") operating profit totaled

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[15]The government had previously reduced its interest in BP from over 50% to 31.5% and made clear of its intention of total divestment as part of their privatization program.

[16]See The Monopolies and Mergers Commission, "The Government of Kuwait and The British Petroleum Company plc," London: Her Majesty's Stationery Office, October 1988.

[17]This assumes that the KIO which is, in principle, a holding company, exercise control over the companies in its portfolio. The MMC analysis assumes this.

[18]This is the division of BP responsible for marketing oil, refined petroleum products, and associated goods and services to wholesalers and retail customers.