



## **NEWS RELEASE**

28th October 2004

### **The Competition Authority blocks IBM's acquisition of Schlumberger**

The Competition Authority announced today (28<sup>th</sup> October) that it had concluded that the proposed acquisition by IBM Ireland Limited (IBM) of Schlumberger Business Continuity Services (Ireland) Limited (Schlumberger) will substantially lessen competition for business recovery hot-site services in Ireland and has therefore determined that it may not be put into effect.

Commenting on the determination the Authority's chairperson, John Fingleton said "The proposed merger would have brought together the two leading suppliers of business recovery hot-site services in the State, with a combined market share of over 80%. The Authority concluded that those companies who are most dependent on business recovery services would not have sufficient alternatives post-merger and would have no choice but to bear a price increase."

Today's determination follows a five-month market investigation by the Authority's Merger Division under Edward Henneberry's direction. It is the first such determination by the Competition Authority since the provisions of the Competition Act regarding merger control came into effect in January 2003. In that time the Authority has published 98 reasoned decisions in relation to mergers notified to it for investigation. The IBM/Schlumberger notification is the 5<sup>th</sup> case to go to a full investigation and the first to continue to the end of a full investigation.

The Authority is required by the Competition Act to publish the determination within one month. In accordance with this requirement, the Authority will publish its determination on or before 28<sup>th</sup> November 2004. No further comment will issue from the Authority in the meantime.

**ENDS**

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## **NOTES FOR THE EDITOR**

### **The Parties**

IBM Ireland Limited (IBM) and Schlumberger Business Continuity Services Limited (Schlumberger) are Irish based companies. The acquisition is part of a global transaction whereby IBM is purchasing all of the Schlumberger business continuity operations.

#### ***IBM***

IBM Ireland Limited provides business recovery services in addition to many other IT services. It is the second largest provider in Ireland. It has two recovery sites in Dublin and one in Cork.

#### ***Schlumberger***

Schlumberger Business Continuity Services (Ireland) Limited concentrates exclusively on providing business continuity/disaster recovery services. It is the largest provider of business recovery services in Ireland. It has seven recovery sites in Ireland (five of which are in Dublin area, the other two in Cork and Belfast).

### **The Product**

The parties are engaged in the supply of business recovery hotsite services to companies in Ireland. They guarantee that, in the event of a sudden disruption of a business' systems and/or premises due to natural or man-made disasters or events, the business will be able to continue running its critical functions, generally from a remote site. The parties provide a full range of business recovery services to clients in what are known as "hotsites". As well as providing a direct back-up to a client's IT systems, the client is also able to transfer key staff to the hotsite, giving them physical space in which to work. The purpose of a business recovery hotsite service is to simulate, as closely as possible, the work environment in which a client's personnel normally work. It is a form of risk protection for a business.

The annual market value of this market in Ireland is in the region of 15 to 20 million Euro.

### **The Process**

The transaction was notified to The Competition Authority on 20<sup>th</sup> May 2004. On 11<sup>th</sup> June 2004 a formal request for information was sent to the parties, to which they replied on 29<sup>th</sup> June 2004 (i.e. the new appropriate date).

The Authority announced its determination to carry out a full (Phase 2) investigation of the transaction on 28<sup>th</sup> July and had until 29<sup>th</sup> October 2004 to make a final determination on the transaction.

The parties have a right of appeal to the High Court against the Authority's determination which they must make within one month of the determination.

***The Authority's conclusions following investigation are as follows:***

- (i) The relevant market is the market for the supply of business recovery hotsite services in the State. The conclusion concerning the competitive effects of this transaction, however, is not dependent upon the finding with regard to the definition of the relevant market.
- (ii) The merging parties are the two largest providers of business recovery hotsite services in the State, and compete directly and closely against each other.
- (iii) Neither of the other two providers of business recovery hotsite services in the State, Synstar and Network Recovery, nor the combination of both of them, would exert sufficient competitive pressure to discipline the combined market power of the merging parties.
- (iv) There is an identifiable group of customers in respect of whom in-house provision of business recovery services would not exercise a sufficient competitive constraint upon the parties' ability to increase price.
- (v) There is an identifiable group of customers in respect of whom general service IT companies, teaming specialists and aggregators who supply some aspects of business recovery services would not exercise a sufficient competitive constraint upon the parties' ability to increase price.
- (vi) There is no evidence that entry to the market would occur in sufficient time and scale to limit any increase in price.
- (vii) Taking all potential sources of competitive constraint together, there exist identifiable customers for whom the merger would be likely to result in an increase in price. This effect is reinforced by the ability of suppliers to set different prices for individual customers with observable demand characteristics, so that customers negatively affected by the merger would not be protected by customers who would be able to switch more easily.

**The Determination:**

In the light of the foregoing conclusions, and having completed its full investigation in relation to the proposed transaction, the Authority, in accordance with Section 22(3)(b) of the Act, has formed the view that the result of the proposed acquisition by IBM Ireland Limited of Schlumberger Business Continuity Services (Ireland) Limited will be to substantially lessen competition in markets for goods or services in the State and, consequently the Authority hereby determines that the acquisition may not be put into effect. Before making a determination in this matter, the Authority, in accordance with Section 22(8) of the Act, had regard to any such relevant international obligations of the State, concluding that there were none such.