



DETERMINATION OF MERGER NOTIFICATION M/17/035 - DAWN MEATS/DUNBIA

Section 21 of the Competition Act 2002

Proposed acquisition by Dawn Meats Ireland Unlimited Company of sole control of each of Dunbia (Ireland) Limited and Dunbia (Slane) and the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company which will acquire the beef and lamb businesses in the United Kingdom of the Dunbia group of companies and of the Dawn Meats group of companies.

Dated 28 September 2017

Introduction

1. On 16 June 2017, in accordance with section 18(1)(a) of the Competition Act 2002, as amended (“the Act”), the Competition and Consumer Protection Commission (the “Commission”) received a notification of a proposed transaction (the “Proposed Transaction”) whereby Dawn Meats Ireland Unlimited Company would acquire the entire issued share capital of and, thus, sole control of Dunbia (Ireland) Limited and its wholly owned subsidiary Dunbia (Slane). The notification also includes information concerning an interrelated transaction, which constitutes the second element of the Proposed Transaction and which involves the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company which will acquire the beef and lamb businesses in the United Kingdom of the Dunbia group of companies (“Dunbia”) and of the Dawn Meats group of companies (“Dawn Meats”).

The Proposed Transaction

2. The Proposed Transaction involves two elements which, the parties state in the notification, constitute a single transaction within the meaning of section 18(1)(a) of the Act:
 - the acquisition of the entire issued share capital of and, thus, sole control of Dunbia (Ireland) Limited and Dunbia (Slane) by Dawn Meats Ireland Unlimited Company; and concurrently,
 - the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company (Dunbia Holdings Limited) which will acquire the beef and lamb businesses in the United Kingdom of Dunbia and of Dawn Meats.
3. The Proposed Transaction is to be effected by way of three share purchase agreements:



- the acquisition by Dawn Meats Ireland Unlimited Company of the entire issued share capital of Dunbia (Ireland) Limited from Dunbia (Northern Ireland);
 - the acquisition by Dunbia Holdings Limited of the entire issued share capital of Dunbia Family (IOM) Limited from its shareholders (Jim and Jack Dobson and their respective family trusts); and
 - the acquisition by Dunbia Holdings Limited of the entire issued share capital of Dawn Meats (UK) from Dawn Holdings.
4. This determination will assess in detail the likely competitive impact in the State of the element of the Proposed Transaction whereby Dawn Meats Ireland Unlimited Company would acquire sole control of Dunbia (Ireland) Limited and its wholly-owned subsidiary Dunbia (Slane). The part of the Proposed Transaction pertaining to the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company in the United Kingdom was notified to the Competition and Markets Authority (“CMA”) on 10 August 2017 and will be assessed by the Commission below. The Commission coordinated with the CMA and is aware that the outcome of the CMA’s investigation does not affect the conclusions of the Commission as set out in this determination.
5. The establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company (Dunbia Holdings Limited) which will acquire the beef and lamb businesses in the United Kingdom of Dunbia and Dawn Meats has little impact in any market for goods or services in the State. As discussed in paragraphs 142-158 below, the Commission assessed the competitive impact of the Proposed Transaction in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland. Dunbia is active in the slaughtering of live lambs and sheep at its slaughtering plant in Dungannon, Co. Tyrone in Northern Ireland.
6. Other than the assessment by the Commission of the competitive impact of the Proposed Transaction in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland, the part of the Proposed Transaction pertaining to the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company in the United Kingdom is not discussed further in this determination.

The Undertakings Involved

Dawn Meats

7. QBD Holdings UC (“QBD”) is the ultimate parent company of Dawn Meats. Dawn Meats is involved in a range of activities in the beef and lamb procurement and processing sectors in the State, the United Kingdom and Europe. Dawn Meats is involved in animal slaughtering, meat processing, trading in non-processed commodity products and rendering.¹ Dawn Meats currently markets its products under a variety of Irish brands, including *Black Angus*, *Red Hereford*, *Charolais Gold*, *Nature’s Meadow*, *West Cork Beef*, *Dawn Chef* and *the Premium Butcher*.

¹ Rendering is a process that converts waste animal (mainly beef, pork, lamb and poultry) tissue into stable, value-added materials.



8. Dawn Meats operates five fresh meat production facilities in the State (Grannagh and Carroll's Cross in Co. Waterford; Rathdowney in Co. Laois; Charleville in Co. Cork; and Ballyhaunis in Co. Mayo). Dawn Meats also operates a foodservice and distribution centre in Ballymount in Co. Dublin. In addition to beef procurement and processing, lamb procurement and processing and rendering are carried out by Dawn Meats in Ballyhaunis. Dawn Meats produces fresh meat cuts as well as value added meat products such as mince and burgers in Carroll's Cross, Waterford. Dawn Meats exports approximately [...] % of the beef and lamb products which it processes in the State, supplying the remaining [...] % to retailers, caterers, hotels and a small number of other customers in the State.
9. In the United Kingdom, Dawn Meats operates eight production sites: a beef and lamb processing plant in Carnaby in Yorkshire; beef processing plants in Ayrshire, Cumbria, Cornwall, Devon and Bedfordshire; a retail packing plant in Wales; and, a coldstore and distribution facility near Birmingham. Dawn Meats operates trading offices in London and Kent. Dawn Meats has no operations in Northern Ireland.
10. Dawn Meats does not operate a pig slaughtering facility. Dawn Meats purchases small amounts of pork cuts and processes them into cooked products at its facility in Wales for sale to retailers in the United Kingdom.
11. For the financial year ending 30 December 2016, QBD's worldwide turnover was approximately €[...], of which approximately €[...] was generated in the State.

Dunbia

12. Dunbia (Slane) is a wholly-owned subsidiary of Dunbia (Ireland) Limited and both Dunbia (Ireland) Limited and Dunbia (Slane) are part of Dunbia. Dunbia (Slane) purchases and slaughters live cattle at its slaughtering plant at Slane, Co. Meath. The beef products are then sent to Dunbia (Ireland) Limited's processing plant in Kilbeggan, Co. Westmeath which processes the beef into fresh beef cuts. Dunbia (Ireland) Limited exports approximately [...] % of its beef products and the remaining [...] % is supplied to a number of customers in the State. Dunbia (Ireland) Limited does not currently supply fresh beef to any large retailers in the State.
13. In the United Kingdom, Dunbia operates seven beef and lamb processing facilities and supplies beef and lamb products to the retail sector in the United Kingdom and for export.
14. Dunbia does not operate a pig slaughtering facility, instead it purchases pork on the open market for retail packing at its production facilities in Northern Ireland and Scotland. Most of these pork products are supplied to Lidl in the State. Dunbia also produces pork sausages in its production facilities in Northern Ireland and in Preston in England.
15. For the year ending 31 March 2017, Dunbia's worldwide turnover was approximately €912 million, of which approximately €[...] was generated in the State.

Rationale for the Proposed Transaction



16. The parties state in the notification:

“The acquisition of Dunbia (Ireland) Limited and Dunbia (Slane) by Dawn Meats Ireland will ensure that the Irish business of Dunbia will continue to be operated by a strong and experienced management team, with the resources and track record to allow the business to grow and develop. The Irish Dunbia business is also a good strategic fit for Dawn Meats, increasing its raw materials base, enhancing its ability to supply existing and new customers in Ireland, the UK, mainland Europe and other markets, while generating production and operational efficiencies at the Dunbia plants and across the Irish Dawn Meats Group.”

Preliminary Investigation (“Phase 1 investigation”)

17. The Phase 1 investigation involved various contacts with the notifying parties, market enquiries with third parties and cooperation between the Commission and the CMA and the European Commission.

Contacts with the Undertakings Involved

18. On 25 July 2017, the Commission served a Requirement for Further Information (“RFI”) on each of QBD and Dunbia Family (IOM) Limited, the ultimate parent company of Dunbia, pursuant to section 20(2) of the Act. This adjusted the deadline within which the Commission had to conclude its assessment of the Proposed Transaction in Phase 1.
19. Upon receipt of all the responses to the RFI from each of QBD and Dunbia Family (IOM) Limited, the “appropriate date” (within the meaning of section 19(6)(b)(i) of the Act) became 21 August 2017.²
20. During its investigation, the Commission requested and received, on an on-going basis, further information and clarifications from the notifying parties.

Third Party Submissions

21. Two third party submissions were received by the Commission. Issues raised in the third party submissions were investigated as part of the Commission’s assessment of the Proposed Transaction.
22. The Irish Farmers’ Association (the “IFA”) expressed the following concern in its submission to the Commission:

“...there is a strong body of evidence which points to weak competition for farmers selling cattle and sheep to meat factories in Ireland and further transactions in line with the Dawn Meats/Dunbia proposed merger is likely to weaken competition even further.”

² The “appropriate date” is the date from which the time limits for making both Phase 1 and Phase 2 determinations begin to run.



23. The Irish Creamery Milk Suppliers Association (the “ICMSA”) expressed the following concerns in its submission to the Commission:

“This planned acquisition will have consequences for the beef industry in Ireland and warrants an investigation. ... The meat industry in Ireland over time is becoming more concentrated within a small number of groups and there is genuine and real concerns amongst beef and sheep producers that further concentration at processor level will considerably undermine competition for both cattle and sheep, thus reducing the price paid to the farmer.”

“The primary producer is in a very weak position in the food supply chain with the growing concentration at both processor and retail level. We firmly believe that the Competition and Consumer Protection Commission need to clearly examine the implications of the proposed deal from a primary producer perspective and ensure that the interest of family farms is protected.”

Market Enquiries

24. During the Phase 1 investigation, the Commission drew up questionnaires to be answered by various third parties, including the following:

- the Department of Agriculture, Food and the Marine (“DAFM”);
- IFA;
- ICMSA;
- Irish Cattle and Sheep Farmers’ Association (the “ICSFA”);
- six competitors of Dawn Meats and Dunbia currently active in the purchase of live cattle, lambs and sheep for slaughter in the State. All six competitors were identified from information provided to the Commission in the notification regarding beef processors currently operating slaughterhouses within a 100 km radius of Dunbia’s slaughterhouse in Slane, Co. Meath; and
- five industrial processors currently active in the State, four of which purchase fresh beef from Dawn Meats and one of which purchases fresh beef from Dunbia.³ All five customers were identified from information provided to the Commission in the notification.

25. With the exception of the ICMSA and one industrial processor, the Commission received a full response from all third parties and, in each case, the Commission also contacted those third parties by telephone and/or e-mail to seek further detail regarding those responses.

³ Dunbia only makes sales of fresh beef to two industrial processors in the State, one of which is Dawn Farm Foods Limited, which is ultimately owned by the Queally Family which is the majority shareholder in QBD, the ultimate parent company of Dawn Meats. The Commission therefore did not send a questionnaire to Dawn Farm Foods Limited.



26. As part of its response to the Commission's questionnaire, the IFA provided a copy of a report prepared by PMCA Economic Consulting on behalf of the IFA dated 25 July 2016 entitled "*Submission to the Directorate-General for Competition (DG Comp) regarding a Proposed Transaction in the Irish Meat Processing Sector: M.7930 – ABP Group/Fane Valley Group/Slaney Foods*" (the "PMCA Report"). The PMCA Report was submitted to the European Commission by the IFA in response to a notification received by the European Commission on 2 September 2016 concerning the proposed acquisition by ABP Food Group of joint control of Slaney Foods Joint Venture and Slaney Proteins together with Fane Valley Co-operative Society. That transaction was cleared by the European Commission by decision dated 7 October 2016 (the "2016 Decision").⁴

Cooperation with the CMA and the European Commission

27. As noted above, the part of the Proposed Transaction pertaining to the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company in the United Kingdom was notified to the CMA on 10 August 2017.
28. Separately, the unrelated proposed transaction whereby ABP Food Group and Fane Valley Co-operative Society Limited would acquire joint control of the Linden Food Group was notified to the European Commission on 25 August 2017. Linden Food Group is a meat processor located in Northern Ireland.
29. The Commission conducted discussions with both the CMA and the European Commission regarding possible theories of harm resulting from the transactions referred to in paragraphs 27 and 28 above insofar as the purchase of live cattle and live lambs and sheep for slaughter in the State and the sale of fresh beef meat and lamb meat in the State are concerned. The Commission also coordinated with both the CMA and the European Commission regarding the timing of its determination in relation to the Proposed Transaction.
30. The outcome of both the CMA's and European Commission's investigations do not affect the conclusions of the Commission as set out in this determination.

Overlap in the activities of the parties

31. There is both a horizontal and vertical overlap between the business activities of the parties in the State.
32. The business activities of the parties overlap horizontally in the State in the purchase of live animals (cattle, lambs and sheep) for slaughter and the processing⁵ of animal carcasses to produce fresh beef and fresh lamb meat for sale to retail customers (for example, supermarkets and butchers), caterers and industrial processors.
33. There is also a vertical relationship between the parties in the State since Dunbia (Slane) currently supplies fresh beef meat to Dawn Farm Foods Limited which, as noted in footnote 3 above, is ultimately owned by the Queally Family which is the majority shareholder in QBD, the ultimate parent company of Dawn Meats. In addition, Dunbia's

⁴ The European's Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* can be accessed at http://ec.europa.eu/competition/mergers/cases/decisions/m7930_764_3.pdf

⁵ Processing is sometimes referred to as "de-boning".



processing plant in Dungannon in Northern Ireland supplies fresh beef and lamb meat to Dawn Meats UK, a subsidiary of Dawn Meats.

Industry Background – The Procurement, Processing and Sale of Beef and Lamb in the State

34. The typical chain of production for beef and lamb meat in the State comprises three discrete stages:⁶
- Procurement – cattle, lambs and sheep are purchased by processors from farmers and brought to an abattoir for slaughter;
 - Processing – the animal carcass is then de-boned to produce primary cuts of fresh beef and lamb meat, as well as other materials such as hides, offal and waste (“by-products”). Bones and waste materials are rendered down, while hides and offal are commodity products sold separately to primary cuts;
 - Sale of fresh meat – fresh beef and lamb meat is sold direct to retailers and butchers, or further processed into beef and lamb products such as burgers and ready meals.

Procurement

35. Farmers maintain a breeding herd of cows that nurture calves every year.⁷ Cattle are fattened and then transported to an abattoir/slaughterhouse for slaughter. Approximately 85-90% of all cattle born and reared in the State are slaughtered in the State with the remaining 10-15% of cattle exported live.⁸
36. Meat processors purchase live animals directly from farmers, sometimes with an agent acting as a middle man to facilitate the transaction. Meat processors typically have procurement teams that negotiate with farmers for the purchase of live animals for slaughter. The parties informed the Commission that there are typically no written contracts between farmers and meat processors for the purchase of live animals for slaughter in the State.
37. Agents are paid a fee by meat processors, typically on a per head basis,⁹ to procure live animals within a certain geographic area.¹⁰ Agents assist farmers and meat processors to reach an agreed price. Agents do not take ownership of live animals. Some agents work exclusively for one meat processor while others work for multiple meat processors. Agents may arrange the transport of live animals between the farm and slaughterhouse. The costs of transporting live animals to the slaughterhouse are borne by the farmer. Live animals can and do travel long distances to slaughterhouses and

⁶ For a diagrammatic representation of the supply chain for beef and lamb meat, see figure 1 in paragraph 19 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

⁷ The typical chain of production for fresh lamb meat is similar to that of fresh beef meat.

⁸ See paragraph 20 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

⁹ Dawn Meats informed the Commission that it typically pays €[...] per head. Dunbia informed the Commission that “commission per head ranges from €[...] to €[...] depending on the number of cattle typically sourced by the agent.”

¹⁰ Both Dawn Meats and Dunbia informed the Commission that they have no written contracts with any of their agents.



farmers do not necessarily supply the closest slaughterhouse if a higher price is available elsewhere.¹¹

38. Dawn Meats currently uses [...] agents to source live cattle for slaughter in the State, of which approximately [...] % work exclusively for Dawn Meats. [...] % of the total volume of live cattle purchased by Dawn Meats for slaughter in the State in 2016 was procured using agents, with the remaining [...] % sourced directly from farmers or through dealers¹² with no assistance from agents.
39. For the period July 2016-June 2017, Dunbia used [...] agents to source live cattle for slaughter in the State,¹³ none of which, to the best of Dunbia's knowledge work exclusively for Dunbia. [...] % of the total volume of live cattle purchased by Dunbia for slaughter in the State in 2016 were procured using agents, with the remaining [...] % sourced directly from farmers with no assistance from agents.¹⁴

*The Pricing of Live Animals for Slaughter in the State*¹⁵

40. The purchase and sale of live animals is a spot business and prices can change daily. Negotiations between a farmer and slaughterhouse are typically initiated by the farmer and take place over the phone. A farmer can negotiate prices with a number of slaughterhouses and may reference a nearby slaughterhouse that is offering a higher price and negotiate on that basis. A farmer may check the prices being offered to a neighbouring farmer to ensure that the prices offered by slaughterhouses are competitive. Any slaughterhouse that offers a lower price than its competitors is unlikely to be supplied, as farmers will supply competing slaughterhouses in relatively close proximity.
41. As noted by the European Commission in the 2016 Decision,¹⁶ there is a significant level of price transparency in the State regarding the price paid by slaughterhouses to farmers for live animals. The Department of Agriculture, Food and the Marine ("DAFM")¹⁷ and *The Farmers Journal*¹⁸ both publish live animal prices on a weekly basis and every other day, respectively. In addition, the IFA publishes up to date quotes every other day on its website¹⁹ and these are also available on various social media platforms and applications.

¹¹ The costs of transporting live lambs and sheep tend to be lower than transporting live cattle. The parties state the following in the notification: "*there are comparatively fewer lamb processing sites in Ireland, reflecting the much lower transport costs per head associated with transporting lamb as compared to cattle.*"

¹² Dawn Meats informed the Commission that dealers have traditionally been involved in the purchase of small numbers of cattle from marts or farmers for immediate onward sale to beef processors for slaughter. Unlike agents, dealers purchase the cattle from marts or farmers and sell them, in turn, to slaughterhouses. Dawn Meats sources live cattle for slaughter from [...] dealers in the State, of which a small number [...] are also agents. Approximately [...] % of the total volume of live cattle slaughtered in the State by Dawn Meats in 2016 were supplied by dealers. There are no written contracts between dealers and Dawn Meats.

¹³ Dunbia informed the Commission that [...] of Dunbia's agents [...] source live cattle for slaughter in Co. Meath, the location of Dunbia's slaughtering facility.

¹⁴ Dunbia informed the Commission that it does not purchase live cattle for slaughter from dealers in the State.

¹⁵ See paragraphs 37-57 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of the pricing of live animals for slaughter in the State.

¹⁶ See paragraphs 37-57 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

¹⁷ This can be accessed at <https://www.agriculture.gov.ie/farmingsectors/weeklypriceslaughterfigures/>

¹⁸ This can be accessed at <http://www.farmersjournal.ie/farm/beef-prices/288>

¹⁹ This can be accessed at <http://www.ifa.ie/market-reports/market-reports-6/>



42. There is a well-established pricing structure for the price paid by slaughterhouses to farmers for live cattle, lambs and sheep. The parties provide the following explanation in the notification:

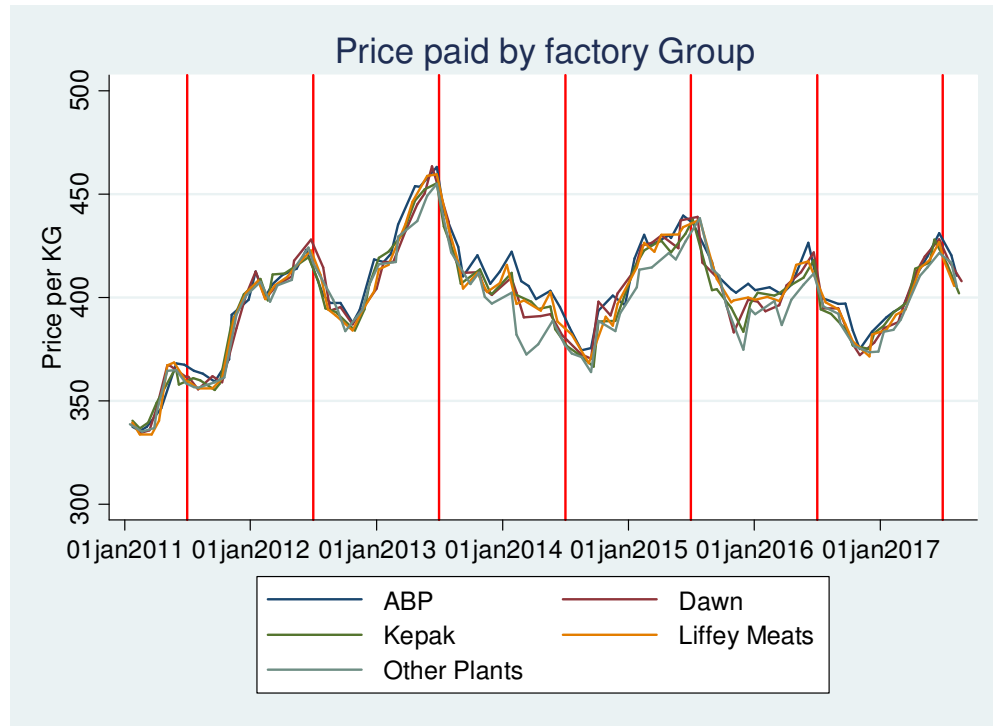
“The beef processing industry operates a national Quality Payment Scheme, which is effectively a “payment grid” for steers and heifers, whereby a base price (which can differ across processor and plant) is quoted for these animals and bonuses or penalties then apply for different muscle confirmations (E,U,R,O,P) and fat scores (1,2,3,4,5). Cows and young bulls are effectively purchased in the same way off a grid. The grading of cattle is automatically done electronically by grading machines. Identical grading machines are used in all export approved plants and are supervised daily. These are also checked regularly by DAFM.”

“The procurement of lamb follows the same basic process as the procurement of beef, in particular, the same “payment grid” system applies for slaughtered lambs (based on standardised scales for muscle (E, U, R, O, P) and fat (1, 2, 3, 4, 5) and there is no system differential in lamb prices across regions within Ireland.”

43. As illustrated in Figure 1 below, there is a seasonal variation in the price paid by slaughterhouses for live cattle in the State.



Figure 1: Slaughterhouse prices per kilogram for R3 Steers, 3 January 2011-10 September 2017²⁰



Source: The Commission, based on data obtained from DAFM website.

44. Figure 1 above illustrates that prices typically peak in July, as represented by the vertical red lines in Figure 1 above, and fall in the autumn months.²¹ This is partly because, as noted by the European Commission²² in the 2016 Decision, higher volumes of live cattle are slaughtered in the third quarter when cattle which are finished being fattened on grass are available for sale to slaughterhouses. The price paid for live cattle tends to increase in the winter when indoor fed cattle cost more to produce than during other months of the year.
45. As illustrated in Figure 2 below, there is no evidence that the price paid by slaughterhouses for live cattle in the State has declined over the period from 3 January 2011-10 September 2017.

²⁰ Figure 1 is based on weekly data on the average price per kilogram paid by all DAFM export-approved slaughterhouses for R3= steers as reported in "Beef Factory Prices (Weekly Reports)" published by DAFM on its website which can be accessed at <https://www.agriculture.gov.ie/farmingsectors/beef/beeefactorypricesweeklyreports/>

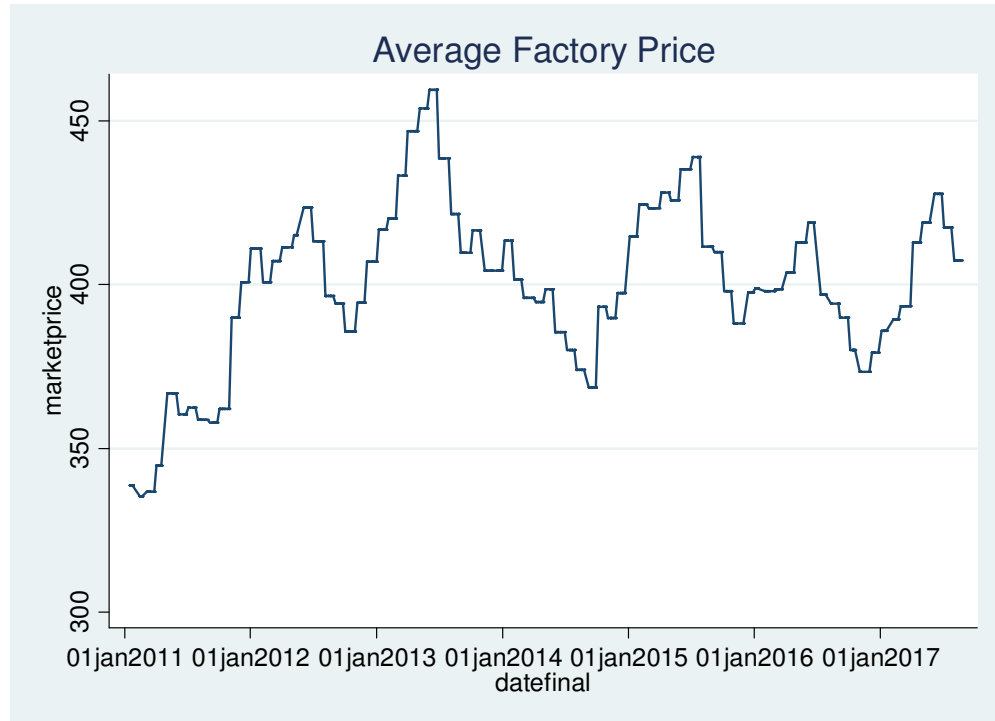
The price of R3= steers was chosen as steers are the largest live cattle type and while not every slaughterhouse purchases each category of live cattle, all slaughterhouses purchase live steers for slaughter. Live steers represent approximately 35% of the total live cattle kill per annum in the State. Slaughterhouses use R3= as the base rate from which to estimate the price per kilogram of a live steer, adding and subtracting as live steers vary from this grade. It is for this reason that the price of an R3= steer is the most representative measure of the price paid by slaughterhouses for live cattle in the State.

²¹ The PMCA Report also concluded there is a seasonal variation in the price paid by slaughterhouses for live cattle in the State, noting that "On average, cattle prices are lower in Q3 compared with the other quarters (Q1, Q2 and Q3) by the following amounts...Steers – 11.70 cent/kg."

²² See paragraph 51 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*



Figure 2: Slaughterhouse prices per kilogram for R3 Steers, 3 January 2011-1 January 2017²³



Source: The Commission, based on data obtained from DAFM website.

46. Figure 2 above illustrates that prices have been relatively stable since 1 January 2012 once seasonality is taken into account. There was a significant increase in prices during the period 3 January 2011 - 1 January 2012, after which prices fluctuate around a new higher equilibrium of around 400 cent per kilogram. Please see Appendix A below for a detailed econometric analysis of the trend in the price paid by slaughterhouses for live cattle in the State over the period 3 January 2011-10 September 2017.

Processing

47. Approximately 1.6 million cattle and 2.75 million lambs and sheep were slaughtered in the State in 2016.²⁴ Meat processors that slaughter between 100 and 1,000 cattle per annum are licensed to sell beef in the State. Any beef processor that slaughters more than 1,000 cattle per annum is required to have a European Union export licence from DAFM whether or not it actually exports its product. Beef processors must also apply for quality assurance certification from Bord Bia. The parties state in the notification that there are currently 17 beef processors operating in the State with European Union export licences, operating between them 31 processing plants.

²³ Figure 2 is based on weekly data on the average price per kilogram paid by all DAFM export-approved slaughterhouses for R3= steers as reported in "Beef Factory Prices (Weekly Reports)" published by DAFM on its website which can be accessed at <https://www.agriculture.gov.ie/farmingsectors/beef/beefactorypricesweeklyreports/>

²⁴ Information provided to the Commission by DAFM.



48. Export licences are not required by lamb processors. However, lamb processing plants are licensed by DAFM and must comply with European Union hygiene legislation. As with beef, lamb processors must also apply for quality assurance certification from Bord Bia. There are currently 15 members of the Bord Bia lamb quality assurance scheme.

The Sale of Fresh Beef and Lamb Meat

49. The vast majority of fresh beef and lamb meat²⁵ processed in the State is exported. The parties state in the notification that approximately 500,000 tonnes of beef was exported in 2016, accounting for almost 90% of the total processed, while approximately 50,000 tonnes of lamb was exported in 2016, accounting for over 80% of the total processed.
50. Fresh beef and lamb meat that is not exported is processed into smaller cuts and sold to the retail and foodservice sector or to industrial processors to be used in the manufacture of products such as burgers, ready meals and tinned food. Downstream customers have their own specifications regarding the type of fresh meat required, its shape, size and uniformity and how it is to be prepared and matured.

Competitive Analysis

51. As noted above, the business activities of the parties overlap horizontally in the island of Ireland in the purchase of live cattle, lamb and sheep for slaughter and the processing of animal carcasses to produce fresh beef and lamb meat for sale to retail customers (grocery retailers and butchers), caterers and industrial processors.
52. Specifically, Dawn Meats and Dunbia overlap horizontally in the following business activities in the State:
- The purchase of live cattle for slaughter in the State;
 - The purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath;
 - The purchase of live lambs and live sheep for slaughter in the island of Ireland;
 - The sale of fresh beef meat to grocery retailers in the State;
 - The sale of fresh beef meat to industrial processors in the State; and
 - The sale of fresh lamb meat to grocery retailers in the State.
53. There is a minimal horizontal overlap between the parties in the State with respect to the sale of fresh beef meat and fresh lamb meat. The Commission will therefore briefly assess the competitive impact of the Proposed Transaction in each of final three product categories listed in paragraph 52 above.

The sale of fresh beef meat in the State

²⁵ This includes frozen and unfrozen fresh beef and lamb meat.



54. The vast majority of fresh beef meat processed by Dawn Meats and Dunbia is exported.²⁶
55. The sale of fresh beef meat in the State can be segmented by the following distribution channels:
- Grocery retailers;
 - Butchers;
 - Caterers; and
 - Industrial processors.
56. There is no horizontal overlap between Dawn Meats and Dunbia in the sale of fresh beef meat to either butchers or caterers in the State since Dunbia does not supply fresh beef meat to either butchers or caterers in the State.²⁷
57. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case.
58. In the 2016 Decision, the European Commission noted the following in relation to the relevant product market for the sale of fresh beef meat:
- “...the product markets that are relevant for the assessment for the present case consist of the market for sale of fresh beef meat to supermarkets, the market for sale of fresh beef meat to caterers and the market for sale of fresh beef meat to industrial processors.”²⁸*
59. In the 2016 Decision, the European Commission noted the following in relation to the relevant geographic market for the sale of fresh beef meat:
- “...the Commission considers that the geographic market definition of the relevant markets for sale of fresh beef to each of (i) retailers/supermarkets, (ii) caterers; and (iii) industrial processors can be left open...”²⁹*
60. The Commission will assess the competitive impact of the Proposed Transaction in the State. This is likely to be the narrowest geographic market affected by the Proposed Transaction.

²⁶ According to information provided by the parties in the notification, almost 90% of the total beef output in the State is exported.

²⁷ There is also no horizontal overlap between the parties in the sale of processed beef in the State.

²⁸ See paragraphs 124-148 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of product market definition in relation to the sale of fresh beef meat.

²⁹ See paragraphs 149-156 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of geographic market definition in relation to the sale of fresh beef meat.



61. Thus, in order to determine whether the Proposed Transaction might result in a substantial lessening of competition, the Commission assessed its competitive impact by reference to the following two potential markets:

- The sale of fresh beef meat to grocery retailers in the State; and
- The sale of fresh beef meat to industrial processors in the State.

The sale of fresh beef meat to grocery retailers in the State

62. There is a negligible horizontal overlap between the parties with respect to the sale of fresh beef meat to grocery retailers in the State. Dunbia's sales of fresh beef meat to the retail sector in the State amounted to approximately €[...] in 2016.³⁰ Dawn Meats currently supplies fresh beef meat to [...] and [...] in the State and it estimates that its share of the supply of fresh beef meat to the retail sector in the State is approximately [...]%. Following completion of the proposed transaction, Dawn Meats will compete with a number of suppliers of fresh beef meat in the State including ABP Food Group Unlimited ("ABP"), Kepak Group Unlimited Company ("Kepak"), Martin Jennings Wholesale Limited ("Jennings") and Liffey Meats Unlimited Company ("Liffey Meats"). In light of the above and considering Dunbia's negligible sales of fresh beef meat to grocery retailers in the State, the Commission considers that the Proposed Transaction raises no competition concerns in the potential market for the sale of fresh beef meat to grocery retailers in the State.

The sale of fresh beef meat to industrial processors in the State

63. Both Dawn Meats and Dunbia supply fresh beef meat to industrial processors (e.g., manufacturers of products such as hamburgers and canned food) in the State. Dawn Meats made sales of approximately €[...] to industrial processors in the State in 2016.³¹ Dunbia made sales of approximately €[...] to industrial processors in the State in 2016. As noted in footnote 3 above, Dunbia only makes sales of fresh beef to two industrial processors in the State, one of which is Dawn Farm Foods Limited, which is ultimately owned by the Queally Family which is the majority shareholder in QBD, the ultimate parent company of Dawn Meats.

64. The parties were unable to provide the Commission with any share estimates for the potential market for the sale of fresh beef meat to industrial processors in the State.

65. For the reasons set out below, the Commission considers that the Proposed Transaction raises no competition concerns in the potential market for the sale of fresh beef meat to industrial processors in the State.

66. First, Dawn Meats will face competition from several suppliers of fresh beef meat to industrial processors in the State following completion of the Proposed Transaction. These include ABP, Kepak, Jennings and Liffey Meats.

³⁰ The parties have indicated that this consisted of sales by Dunbia's beef processing plant in Northern Ireland to Lidl in the State, primarily as a result of a supply arrangement which Dunbia has with Lidl in the State for supplies of pork meat.

³¹ It should be noted, however, that €[...] (approximately [...]%) of these sales of fresh beef meat to industrial processors in the State comprised sales to Dawn Farm Foods Limited, which is ultimately owned by the Queally Family which is the majority shareholder in QBD, the ultimate parent company of Dawn Meats. The equivalent percentage figure in 2015 was approximately [...]%.



67. Second, most industrial processors contacted by the Commission expressed no concerns about the likely competitive impact of the Proposed Transaction in the State.³²
68. Third, Dunbia is not a significant supplier of fresh beef meat to industrial processors in the State, as evidenced by the fact that, other than Dawn Farm Foods Limited, Dunbia currently only supplies fresh beef meat to one industrial processor in the State.
69. Fourth, the European Commission in the 2016 Decision noted that:
- “...most respondents (industrial processors) consider that they have sufficient buyer power vis-à-vis suppliers of fresh beef meat.”³³*
70. In conclusion, the Commission considers that the Proposed Transaction does not raise any competition concerns in the potential market for the sale of fresh beef meat to industrial processors in the State.

The sale of fresh lamb meat in the State

71. There is a negligible horizontal overlap between the parties in the State for the sale of fresh lamb meat to grocery retailers.³⁴ Dunbia does not supply fresh lamb meat to butchers, caterers or industrial processors in the State. In 2016, Dunbia made fresh lamb meat sales to [...] in the State of approximately €[...]. Dawn Meats made fresh lamb meat sales of approximately €[...] to the retail sector in the State in 2016 which Dawn Meats estimates represents a [...] % share of the sale of fresh lamb meat to the retail sector in the State. Given Dunbia's negligible sales of fresh lamb meat in the State and the presence of several competitors such as ABP, Kepak and Kildare Chilling Company, the Commission considers that the Proposed Transaction raises no competition concerns in the potential market for the sale of fresh lamb meat to grocery retailers in the State.

The purchase of live cattle for slaughter in the State

72. The Commission conducted a detailed competitive assessment of the likely competitive impact of the Proposed Transaction in the potential market for the purchase of live cattle for slaughter in the State.

Relevant Product and Geographic Market

73. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case.
74. In the 2016 Decision, the European Commission concluded that the relevant product market for the purchase of live cattle for slaughter includes all types and breeds of cattle

³² One industrial processor who is a customer of Dunbia expressed the view that the Proposed Transaction “*would strengthen the dominant position of the big suppliers in the market.*” However, this customer also informed the Commission that, in addition to Dunbia, it currently purchases supplies of fresh beef meat from the following three suppliers in the State: Ashbourne Meat Processors Limited, Moyvalley Meats and Traditional Meat Company (Ireland) Limited.

³³ Paragraph 396 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods.*

³⁴ There is no horizontal overlap between the parties in the sale of processed lamb in the State.



(e.g., steers, heifers, cows, bulls, etc.).³⁵ In light of the recent decisional practice of the European Commission and the absence of any evidence to the contrary in the Commission's market investigation, the Commission considers that there is no reason to depart from the European Commission's view. As noted by the European Commission in the 2016 Decision, all live cattle slaughterhouses in the State have the ability to slaughter and process all types and breeds of live cattle; slaughterhouses do not require special equipment to slaughter and process different types and breeds of live cattle.

75. In the 2016 Decision, the European Commission noted the following in relation to the relevant geographic market for the purchase of live cattle for slaughter:

*"If one were to consider 60 mile radii, various catchment areas in the [Republic of Ireland] would appear to be overlapping. This fact together with the indication resulting from the market investigation that prices across localities in the [Republic of Ireland] do not appear to differ significantly, appear to point towards a market definition which may be national (the [Republic of Ireland]) in scope."*³⁶

76. The European Commission also states that it "*...will assess the transaction applying a 60 miles radius from cattle processing plants in the [Republic of Ireland].*"³⁷

77. The Commission will assess the competitive impact of the Proposed Transaction in the potential market for the purchase of live cattle for slaughter in the State. Given that Dunbia operates a slaughtering facility in Slane, Co. Meath, the Commission will also assess the competitive impact of the Proposed Transaction in the narrower potential market for the purchase of live cattle for slaughter within a 100km (60 miles) radius of Dunbia's facility in Slane.

78. Thus, in order to determine whether the Proposed Transaction might result in a substantial lessening of competition in the State, the Commission has assessed its competitive impact by reference to the following two potential markets:

- The purchase of live cattle for slaughter in the State; and
- The purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath.

The purchase of live cattle for slaughter in the State

Market Structure

79. Paragraph 3.1 of the Commission's "*Guidelines for Merger Analysis*" states that "*A central element in assessing the competitive impact of a merger is identifying its effect on market structure.*"³⁸ Market structure can be characterised by the number and size

³⁵ See paragraphs 79-93 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of product market definition in relation to the purchase of live animals for slaughter.

³⁶ Paragraph 105 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

³⁷ Paragraph 106 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

³⁸ The Commission's "*Guidelines for Merger Analysis*" can be accessed at



distribution of firms in a market. A merger or acquisition will have an impact on market structure as two firms pre-acquisition become one firm post-acquisition.

80. Table 1 below lists the parties' estimated shares in the potential market for the purchase of live cattle for slaughter in the State in 2016.

Table 1: The Purchase of Live Cattle for Slaughter in the State, by volume, 2016

Beef Processor	Number of Beef Abattoirs in the State	Market Share (%)
APB	7 ³⁹	[25-30]
Dawn Meats	4	[20-25]
Kepak	5	[15-20]
Liffey Meats	3	[5-10]
Kildare Chilling Company	1	[0-5]
Dunbia	1	[0-5]
Foyle Food Group	1	[0-5]
Moyvalley Meats	1	[0-5]
Eurofarm Foods	1	[0-5]
Ashbourne Meats	1	[0-5]
Others	-	[5-10]
Total		100

Source: The Commission, based on estimated market shares provided by the Parties.

81. Following completion of the Proposed Transaction, Dawn Meats will remain the second largest purchaser of live cattle for slaughter in the State with an estimated market share of [20-25]%.
82. Market concentration refers to the degree to which production/supply in a particular product market is concentrated in the hands of a few large firms. The most commonly used measure of concentration is the Herfindahl-Hirschman index ("HHI"), which is defined as the sum of the squares of the market shares of all firms participating in the market. According to the Commission's "Guidelines for Merger Analysis",⁴⁰ any market with a post-merger HHI greater than 1,000 may be regarded as concentrated and greater than 2,000, highly concentrated. In a concentrated market, a change in the pre-merger HHI compared to the post-merger HHI of less than 250 is "unlikely to cause concern" and in a highly concentrated market a change in the pre-merger HHI compared to the post-merger HHI of less than 150 is "unlikely to cause concern". Therefore, if the post-merger HHI is above 2,000 and the change in the HHI is greater than 150, this indicates that firms in that market may be able to exercise market power.

<https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/04/CCPC-Merger-Guidelines-1.pdf>

³⁹ ABP operates eight live animal slaughtering and meat processing plants in the island of Ireland, of which six are located in the State. ABP also jointly controls (with Fane Valley Co-operative Society Limited) two other meat processing companies: (a) Slaney Foods International which slaughters live cattle and processes beef in a facility in Co. Wexford; and (b) Irish Country Meats which slaughters lambs and sheep in two facilities in Co. Wexford, Co. Meath and Liège in Belgium. Thus, in total, ABP controls seven beef abattoirs in the State, including the abattoir operated by Slaney Foods International in Co. Wexford.

⁴⁰ See paragraph 3.10 of The Commission's "Guidelines for Merger Analysis".



83. Based on the market share estimates set out in Table 1 above, the potential market for the purchase of live cattle for slaughter in the State is concentrated as the HHI following completion of the Proposed Transaction would be over 1,500. However, the change in the HHI would be approximately 160 which, as set out in paragraph 3.10 of the Commission’s “Guidelines for Merger Analysis”, suggests that the Proposed Transaction is “unlikely to cause concern”.
84. The following four beef processors, which each own and operate multiple abattoirs in the State, will continue to operate following implementation of the Proposed Transaction: ABP, Dawn Meats, Kepak and Liffey Meats.
85. Table 2 below lists the estimated shares of Dawn Meats and Dunbia in the potential markets for the purchase of different types of live cattle for slaughter in the State in 2016.

Table 2: The Purchase of Different Types of Live Cattle for Slaughter in the State, by volume 2016

Cattle Type	Dawn Meats (%)	Dunbia (%)	Parties Combined (%)
Young Bulls	[15-20]	[0-5]	[20-25]
Bulls	[15-20]	[0-5]	[20-25]
Steers	[20-25]	[0-5]	[25-30]
Heifers	[10-15]	[0-5]	[15-20]
Cows	[25-30]	[5-10]	[30-35]

Source: The Commission, based on estimated market shares provided by the Parties.

86. The estimated share of Dawn Meats in the State following completion of the Proposed Transaction in relation to steers and cows will be above its overall estimated share of the potential market for the purchase of live cattle for slaughter in the State. However, Dawn Meats’ and Dunbia’s combined estimated shares of [25-30]% and [30-35]% for steers and cows respectively, with increments of [0-5]% and [5-10]% respectively resulting from the Proposed Transaction, do not indicate that the Proposed Transaction is likely to raise competition concerns.

Competitive Effects Analysis

87. In this section, the Commission examines the competitive effects of the Proposed Transaction in the potential market for the purchase of live cattle for slaughter in the State.
88. Assessing the competitive effects of the Proposed Transaction requires the identification of any relevant theories of harm (i.e., how the Proposed Transaction could result in a substantial lessening of competition) and an analysis of those theories of harm through an evaluation of the available evidence.
89. One of the theories of harm on which the Commission’s investigation focused in the present case was unilateral effects which, as explained in paragraph 4.8 of the Commission’s “Guidelines for Merger Analysis”, occur when “a merger results in the



merged entity having the ability and the incentive to raise prices at its own initiative and without coordinating with its competitors.”

Unilateral Effects

90. In considering the likelihood of unilateral effects following completion of the Proposed Transaction, the Commission assessed a number of factors including the closeness of competition between the merging parties, the extent to which farmers switch between slaughterhouses, and the ability of slaughterhouses to increase demand if the price of live cattle for slaughter declines.
91. The Commission considers that the Proposed Transaction will not enable Dawn Meats to unilaterally lower the price paid to farmers for live cattle for slaughter or to otherwise harm competition in the State following completion of the Proposed Transaction.

Closeness of Competition

92. A merger may give rise to unilateral effects if it eliminates or weakens competition between sellers of differentiated products who previously competed on the basis of price and depending on the closeness of the merging firms' products. The Commission considers that Dawn Meats and Dunbia are not sufficiently close competitors in the potential market for the purchase of live cattle for slaughter in the State such that following completion of the Proposed Transaction Dawn Meats will find it profitable to lower the price paid to farmers for live cattle.
93. While Dawn Meats and Dunbia are clearly competitors in the potential market for the purchase of live cattle for slaughter in the State,⁴¹ there is no evidence to suggest that the parties are especially close competitors. All of the beef processors listed in Table 1 above purchase and slaughter all types and breeds of live cattle in the State. Neither Dawn Meats nor Dunbia specialise in the purchase of specific types or breeds of live cattle for slaughter.
94. Dawn Meats has a minimal presence in the purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath and does not operate a slaughtering facility within that 100km radius.
95. This is confirmed in an internal document⁴² provided to the Commission by Dunbia entitled “*JV Commercial Analysis*” which contains the following statement:

“[Dunbia] Slane...strategically positioned in geographical areas where Dawn do not currently procure cattle or sheep.”
96. The nearest Dawn Meats slaughtering facility is located in Rathdowney, Co. Laois, a distance of approximately 150km from Dunbia's slaughtering facility in Slane, Co.

⁴¹ In this regard, it is significant that (according to data provided to the Commission by DAFM) 42% of the total number of live cattle purchased by Dunbia's slaughtering facility in Slane, Co. Meath in 2016 was sourced from farmers located outside the following six counties (which comprise most of the relevant catchment area surrounding Dunbia's slaughtering facility in Co. Meath): Dublin, Kildare, Louth, Meath, Westmeath and Wicklow. It is clear that Dunbia sources live cattle for slaughter in areas of the State outside a 100km radius of its slaughtering facility in Slane and thus competes, to some extent, with slaughterhouses throughout the State.

⁴² During the Phase 1 investigation, the Commission served an RFI to Dunbia requesting internal documentation.



Meath. Only [...] % of the total number of live cattle purchased by Dawn Meats' slaughtering facility in Rathdowney, Co. Laois in 2016 were sourced from farmers located in the following six counties (which comprise most of the relevant catchment area within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath): Dublin, Kildare, Louth, Meath, Westmeath and Wicklow.

97. Dawn Meats also operates a slaughtering facility in Ballyhaunis, Co. Mayo, a distance of approximately 175km from Dunbia's slaughtering facility in Slane, Co. Meath. Only [...] % of the total number of live cattle purchased by Dawn Meats' slaughtering facility in Ballyhaunis, Co. Mayo in 2016 were sourced from farmers located in the following six counties (which comprise most of the relevant catchment area within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath): Dublin, Kildare, Louth, Meath, Westmeath and Wicklow.
98. As detailed in Table 3 below, there are six beef processors currently operating beef abattoirs located within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath. The Commission considers that it is highly likely that some, if not all, of these six beef processors are currently exerting (and will continue to exert following completion of the Proposed Transaction) a greater competitive constraint on Dunbia in the potential market for the purchase of live cattle for slaughter in the State than any of Dawn Meats's four slaughtering facilities.

Table 3: Beef Processors Operating within a 100km radius of Dunbia's Slaughtering Facility in Slane, Co. Meath

Beef Processor	Location of Abattoir	Distance from Dunbia, Slane (km)	Estimated slaughtering capacity
Euro Farm Foods	Duleek, Co. Meath	14	50,000
Kepak	Clonee, Co. Meath	41	60,000
Moyvalley Meats	Tanderagee, Co. Kildare	50	60,000
Liffey Meats	Ballyjamesduff, Co. Cavan	60	80,000
Kildare Chilling Company	Kildare town, Co. Kildare	83	80,000
APB	Clones, Co. Monaghan	85	60,000

Source: The Commission, based on information provided by the Parties.

99. The relatively higher market shares of the parties in the potential markets for the purchase of live steers and cows for slaughter in the State (see Table 2 above) may indicate a certain closeness of competition between Dawn Meats and Dunbia. There is, however, no evidence to suggest that the parties are especially close competitors in the potential markets for the purchase of live steers and cows for slaughter in the State. As noted above, neither Dawn Meats nor Dunbia specialise in the purchase of specific types or breeds of live cattle for slaughter.



100. In conclusion, the Commission considers that Dawn Meats and Dunbia are not sufficiently close competitors such that the Proposed Transaction will enable Dawn Meats to lower prices in the potential market for the purchase of live cattle for slaughter in the State. The Commission considers that there are a number of beef processors currently active in the State (see Table 3 above) that will continue to exert a competitive constraint on Dawn Meats in the purchase of live cattle for slaughter in the State following completion of the Proposed Transaction.

Farmers Switching between Slaughterhouses

101. The IFA expressed the view to the Commission that switching by farmers between abattoirs is not a feature of the industry. The IFA cited the PMCA Report which expressed the following view in relation to switching: *“The practice in which long-term relationships are built up over many years between farmer, agent and processor mean that switching costs are high for farmers and accordingly the incidence of switching agent and processor is very low among farmers...farmers have little or no alternatives in regard to switch in practice.”*
102. The Commission’s market inquiries do not support the IFA’s views in relation to switching by farmers between beef processors. Instead, the Commission’s market inquiries confirm the following statement expressed by the European Commission in the 2016 Decision in relation to the possibility of switching by farmers between beef processors in the State:

“...farmers can switch easily and frequently do switch between different slaughterhouses.”⁴³

103. The ICMSA expressed the view to the Commission that switching by farmers between slaughterhouses is a feature of the industry. The ICMSA noted that very few farmers sell their live cattle to a single abattoir with most farmers selling to whichever beef processor offers the best price. The ICMSA also expressed the view that in general there are no costs, impediments, or disincentives which make it difficult for farmers to switch between slaughterhouses.
104. All six beef processors contacted by the Commission expressed the view that switching by farmers between slaughterhouses is a feature of the industry. Four of the six beef processors expressed the view that there are no costs, impediments, or disincentives which make it difficult for farmers to switch between slaughterhouses. Two of the six beef processors cited transport costs to more distant abattoirs as a possible impediment to switching between beef processors.
105. Asked to rank “price”, “convenience of location of slaughterhouse” and “long-term relationship with slaughterhouse” in order of importance when selling live cattle to slaughterhouses, all six beef processors listed “price” as most important, followed by “long-term relationship with slaughterhouse” with “convenience of location of slaughterhouse” ranked third. This echoes the view of the ICMSA, noted above, that most farmers will sell their live cattle to whichever beef processor offers the best price.

⁴³ Paragraph 249 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*. See paragraphs 249-266 for a detailed discussion of the possibilities of switching by farmers between beef processors in the State.



106. In conclusion, switching by farmers between beef processors in the State does appear to occur frequently and there do not appear to be any significant costs or impediments to switching. This suggests that the loss of competition between Dawn Meats and Dunbia following implementation of the Proposed Transaction is unlikely to lead to competition concerns since farmers will be able to switch to competing beef processors (such as those listed in Table 3 above) should Dawn Meats reduce the price paid to farmers for live cattle for slaughter.

Capacity

107. In the 2016 Decision, the European Commission concluded that slaughterhouses in the State are not capacity constrained and have spare capacities.⁴⁴ The European Commission also stated the following in the 2016 Decision: *“Looking at the individual capacity utilisation for the slaughter of live cattle submitted by slaughterhouses in their responses...the overall capacity utilisation is mostly between 60% and 80%. ... Half of the respondents state that their overall capacity is limited by their chilling capacity whereas the other half is not limited by their chilling capacities.”*⁴⁵
108. All six beef processors contacted by the Commission expressed the view that slaughterhouses in the State have spare capacity. Current individual capacity utilisation figures, both in terms of slaughtering capacity and chilling capacity in each slaughtering facility, were provided to the Commission by three out of the six beef processors. Similar to the European Commission’s findings, overall capacity utilisation (both in terms of slaughtering capacity and chilling capacity in each slaughtering facility) varies between 60% and 90%.
109. In conclusion, slaughterhouses in the State appear to have spare capacity such that they could purchase more live cattle for slaughter if Dawn Meats offered lower prices to farmers for live cattle following completion of the Proposed Transaction.

Views of Third Parties Regarding the Proposed Transaction

110. As detailed in paragraphs 22 and 23 above, both the IFA and ICMSA expressed competition concerns about the proposed transaction.
111. However, as noted above, all six beef processors contacted by the Commission expressed the view that the Proposed Transaction will have little impact on competition in the purchase of live cattle for slaughter in the State.

Conclusion on Unilateral Effects

112. The Proposed Transaction will lead to a modest increase in Dawn Meats’ share in the potential market for the purchase of live cattle for slaughter in the State. There is no evidence to suggest that Dawn Meats and Dunbia are close competitors in the purchase of live cattle for slaughter in the State. Following completion of the Proposed Transaction, Dawn Meats will face competition from three multi-abattoir beef processors (ABP, Kepak and Liffey Meats) and a number of single-abattoir beef

⁴⁴ See paragraphs 267-276 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of spare capacity in the live cattle slaughtering sector in the State.

⁴⁵ See paragraph 271 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.



processors currently active in the State (e.g., Kildare Chilling Company, Moyvalley Meats, Foyle Food Group). The existing spare capacity of competitors and the ability of farmers to switch easily between slaughterhouses will limit any potential negative effects arising from the Proposed Transaction.

113. For the reasons set out above and considering all the evidence described above, the Commission considers that Dawn Meats will not have the ability and incentive following completion of the Proposed Transaction to unilaterally lower the price paid to farmers for live cattle for slaughter in the State.

Coordinated Effects

114. Coordinated effects occur where a proposed transaction changes the nature of competition in the relevant market by making it more likely that the merged entity and some or all of its competitors will engage in coordinated interaction to raise prices and/or decrease output. Such interaction refers to actions that are profitable only as a result of each firm accommodating the reactions of others. Thus, the key question is whether a proposed transaction materially increases the likelihood that firms in the market will successfully coordinate their behaviour or strengthen existing coordination.

No Evidence of Coordinated behaviour prior to the Proposed Transaction

115. The PMCA Report expressed the following view on coordinated effects in relation to the proposed acquisition by ABP Food Group of joint control of Slaney Foods Joint Venture and Slaney Proteins together with Fane Valley Co-operative Society:⁴⁶

“...there are already possibilities for coordinated behaviour in the relevant market, in principle, and that the proposed JV would make it more likely for coordinated behaviour to obtain in practice...”

116. In the 2016 Decision, the European Commission reached the following conclusion in relation to the proposed acquisition by ABP Food Group of joint control of Slaney Foods Joint Venture and Slaney Proteins together with Fane Valley Co-operative Society:

“...the transaction does not raise serious doubts as to its compatibility with the internal market with respect to coordinated effects on the market for the purchase of live cattle for slaughter in the [Republic of Ireland].”⁴⁷

117. In its third party submission to the Commission and in its response to the Commission’s questionnaire, the IFA provided no new information or evidence (beyond that which had been included in the PMCA Report) concerning the possibility of coordinated behaviour following completion of the Proposed Transaction in the potential market for the purchase of live cattle for slaughter in the State.

⁴⁶ As noted above, this transaction was cleared by the European Commission on 7 October 2016. The European’s Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* can be accessed at http://ec.europa.eu/competition/mergers/cases/decisions/m7930_764_3.pdf

⁴⁷ See paragraph 328 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.



118. There is no evidence of coordinated behaviour prior to the Proposed Transaction in the potential market for the purchase of live cattle for slaughter in the State. As discussed in Appendix A below, the prices paid by slaughterhouses to farmers for live cattle in the State are seasonal in nature and have not demonstrated a consistent trend, upward or downward, over the period 2012-2017. The Commission contacted a wide range of third parties during its investigation and none raised any concern about coordinated behaviour prior to the Proposed Transaction.

Conditions and Evidence Considered for Coordinated Behaviour

119. In assessing the potential for a proposed transaction to result in coordinated effects, the Commission will assess whether the conditions and incentives that are generally necessary for successful coordination are present or likely to arise:
- a) the ability to identify common terms of coordination; and
 - b) the ability to detect deviations from the terms of coordination, and the ability to punish deviations that would undermine the coordinated interaction.⁴⁸
120. In this instance, the Commission will assess whether the Proposed Transaction will increase the possibility of coordination and then examine whether it will increase the sustainability of coordination.

The Possibility of Reaching Common Terms of Coordination

121. In order to coordinate behaviour, firms need to achieve an understanding as to how to do so. This need not involve explicit agreements among competitors, or any communication between them, nor need it involve all firms or perfect coordination between firms. Coordinated behaviour can take many forms. In some markets, firms may coordinate their behaviour on prices in order to keep them above the competitive level. In other markets, coordination may aim at limiting production or the amount of new capacity brought to the market. Firms may also coordinate by dividing the market, for instance by geographic area or other customer characteristics.
122. As noted by the European Commission in the 2016 Decision, slaughterhouses could, in theory, coordinate in two different ways.⁴⁹ First, they could agree on a price or set of prices to be paid to farmers for live cattle for slaughter. Second, slaughterhouses could divide farmers according to their geographic location and agree to only purchase live cattle from farmers in their own region. The European Commission stated in the 2016 Decision that the latter theory is unlikely because farmers frequently switch between slaughterhouses, the cost of transporting live cattle to more distant abattoirs is moderate and price quotes are easily and quickly available to all farmers.
123. In the following paragraphs, the Commission considers whether the relevant market presents characteristics such that it would be possible to reach terms of coordination

⁴⁸ See paragraphs 4.25-4.31 of the Commission's "Guidelines for Merger Analysis" for a detailed discussion of the conditions and incentives conducive to coordinated behaviour.

⁴⁹ See paragraphs 295-328 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of the possibility of coordinated effects in relation to the purchase of live cattle for slaughter in the State.



and whether the coordination could be maintained following completion of the Proposed Transaction.

Symmetry

124. Firms may find it easier to reach a common understanding on the terms of coordination if they are relatively symmetric, especially in terms of market shares.
125. The Proposed Transaction will lead to an increase in the level of symmetry between the market shares of market participants. Following completion of the Proposed Transaction, Dawn Meats' market share will increase from [20-25]% to [20-25]% (see Table 1 above) making it closer to ABP's market share of [25-30]%. Furthermore, it will reduce by one the number of smaller slaughterhouses with market shares around 5% currently active in the State.
126. However, the number of firms in a market is also an important factor as it is easier to coordinate among few players than among many. Following completion of the Proposed Transaction, there will still be at least nine beef processors active in the purchase of live cattle for slaughter in the State. Therefore, it is unlikely that it will be easy for firms to coordinate on the price to be paid to farmers for live cattle for slaughter.

Transparency

127. As noted by the European Commission in the 2016 Decision,⁵⁰ the prices paid by slaughterhouses for live cattle are very transparent and this will not change following completion of the Proposed Transaction. Quotes are published in multiple newspapers and on various social media platforms on a regular basis.

Product Differentiation and Price Complexity

128. Reaching terms of coordination is easier in the case of homogenous products than in a differentiated product market.
129. As noted by the European Commission in the 2016 Decision, while there are many factors influencing the final price paid by slaughterhouses to farmers for live cattle (including the type of live cattle, breed and fat grade), this potential complexity is significantly reduced by the industry-wide establishment of a base price that each slaughterhouse quotes and common rules for measuring the overall quality of live cattle for slaughter.
130. However, since the demand of slaughterhouses for live cattle is dependent on the downstream demand of customers, coordination on the price to be paid to farmers for live cattle would only make sense if slaughterhouses faced a constant downstream demand. Absent such constant downstream demand, slaughterhouses would need to coordinate their sales on downstream markets (in addition to coordinating on the upstream market for the purchase of live cattle for slaughter in the State). Such coordination on the downstream markets for the sale of fresh beef meat does not appear feasible, not least because 90% of fresh beef meat is exported and any attempt

⁵⁰ See paragraph 318 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.



by Irish beef processors to raise prices on downstream markets through coordination would lead to the risk of losing market share to foreign beef processors.

Market Stability

131. While the supply of live cattle for slaughter in the State is relatively stable (with, as noted above, seasonal peaks and troughs), the demand of slaughterhouses is dependent on the downstream demand of customers which, as noted by the European Commission in the 2016 Decision,⁵¹ can be volatile as it is influenced by a wide range of factors. This volatility in downstream demand makes coordination by slaughterhouses on the price paid to farmers for live cattle more difficult. As noted by the European Commission in the 2016 Decision,⁵² this would appear to reduce the incentive for slaughterhouses to coordinate on the price paid to farmers for live cattle for slaughter in the State.

Conclusion on the Possibility of Reaching Common Terms of Coordination

132. The Proposed Transaction will lead to an increase in the level of symmetry in market shares between market participants and there is considerable transparency regarding the prices paid by slaughterhouses to farmers for live cattle. However, coordination by slaughterhouses following completion of the Proposed Transaction on the prices paid to farmers for live cattle for slaughter does not appear feasible due to the volatile nature of demand in the downstream markets for the sale of fresh beef meat in the State.

Sustainability of coordination

133. The Proposed Transaction will not result in an increase in the sustainability of coordination since the reaction of current and future competitors and customers is likely to jeopardise any attempt by slaughterhouses to coordinate on the prices paid to farmers for live cattle for slaughter in the State. As noted by the European Commission in the 2016 Decision,⁵³ customers in downstream markets for the sale of fresh beef meat in the State could use the high level of transparency about the price paid to farmers for live animals for slaughter as leverage in negotiations with slaughterhouses.
134. Downstream customers may be able to negotiate with slaughterhouses to ensure that slaughterhouses pass through some of the benefits of lower supply costs, resulting from lower prices paid to farmers for live animals, by way of lower prices for fresh beef meat in the downstream market. This is likely to increase the incentive for slaughterhouses to deviate from any agreement to coordinate on the prices to be paid to farmers for live cattle for slaughter following completion of the Proposed Transaction.

Conclusion on Coordinated Effects

135. For the reasons set out above and considering all the evidence, the Commission considers that the Proposed Transaction will not make it sufficiently more likely that Dawn Meats and its competitors will engage in coordinated behaviour in the potential

⁵¹ See paragraph 320 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

⁵² See paragraph 321 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

⁵³ See paragraph 325 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.



market for the purchase of live cattle for slaughter in the State as to substantially lessen competition.

The purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath

136. There is a minimal horizontal overlap between the parties in the purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath.
137. Dawn Meats has a minimal presence in the purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath and does not operate a slaughtering facility in this catchment area. The nearest Dawn Meats slaughtering facility is located in Rathdowney, Co. Laois, a distance of approximately 150km from Dunbia's slaughtering facility in Slane, Co. Meath. Only [...] % of the total number of live cattle purchased by Dawn Meats slaughtering facility in Rathdowney, Co. Laois in 2016 were sourced from farmers located in the following six counties (which comprise most of the relevant catchment area within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath): Dublin, Kildare, Louth, Meath, Westmeath and Wicklow.
138. Dawn Meats also operates a slaughtering facility in Ballyhaunis, Co. Mayo, a distance of approximately 175km from Dunbia's slaughtering facility in Slane, Co. Meath. Only [...] % of the total number of live cattle purchased by Dawn Meats slaughtering facility in Ballyhaunis, Co. Mayo in 2016 were sourced from farmers located in the following six counties (which comprise most of the relevant catchment area within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath): Dublin, Kildare, Louth, Meath, Westmeath and Wicklow.
139. Following completion of the Proposed Transaction, Dawn Meats will face competition from a number of beef processors for the purchase of live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath. Table 3 above lists the beef processors currently operating within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath.
140. The Commission sent a detailed questionnaire to each of the six beef processors listed in Table 3 above. All six beef processors expressed the view to the Commission that the Proposed Transaction will have little impact on competition in the purchase of live cattle for slaughter in the State.
141. In conclusion, for the reasons set out above, the Commission considers that Dawn Meats will not have the ability and incentive following completion of the Proposed Transaction to unilaterally lower the prices paid to farmers for live cattle for slaughter within a 100km radius of Dunbia's slaughtering facility in Slane, Co. Meath.

The purchase of live lambs and sheep for slaughter in the State

Relevant Product and Geographic Market

142. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case.



143. In the 2016 Decision, the European Commission concluded that the relevant product market for the purchase of live lambs and sheep for slaughter can be left open.⁵⁴ The Commission considers that there is no reason to depart from this view. As noted by the European Commission in the 2016 Decision, all slaughterhouses have the ability to slaughter and process all types of live lambs and sheep (i.e., ewes and ram). Thus, the Commission has analysed the competitive impact of the Proposed Transaction by reference to the potential product market for the purchase of live lambs and sheep for slaughter.

144. In the 2016 Decision, the European Commission noted the following in relation to the relevant geographic market for the purchase of live lambs and sheep for slaughter:

“Based on the results of the market investigation, the Commission considers...that the geographic scope of the market(s) for the purchase of live sheep and lamb for slaughter is the [island of Ireland].”⁵⁵

145. Dunbia slaughters live lambs and sheep at its slaughtering plant in Dungannon, Co. Tyrone in Northern Ireland.⁵⁶ Dunbia’s live lamb and sheep slaughtering facility in Northern Ireland did not source any live lambs and sheep from farmers located in the State during the period from 1 January 2015 to 30 June 2017. Thus, there is no horizontal overlap between the parties in the purchase of live lambs and sheep for slaughter in the State.

146. The Commission will therefore assess the competitive impact of the Proposed Transaction in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland.

The purchase of live lambs and sheep for slaughter in the island of Ireland

147. Dunbia informed the Commission that it does not currently purchase any live lambs or sheep for slaughter in the State; 100% of the lambs and sheep slaughtered by Dunbia at its slaughtering plant in Dungannon, Co. Tyrone are purchased from farmers located in Northern Ireland.

148. There is a horizontal overlap between the parties in the purchase of live lambs and sheep for slaughter in the island of Ireland. Table 4 below lists the parties’ estimated shares in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland in 2016.

Table 4: The Purchase of Live Lambs and Sheep for Slaughter in the Island of Ireland, by volume, 2016

Lamb Processor	Number of Lamb/Sheep	Market Share (%)
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⁵⁴ See paragraphs 107-114 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of product market definition in relation to the purchase of live lambs and sheep for slaughter.

⁵⁵ Paragraph 105 of the European Commission’s decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*.

⁵⁶ Dunbia’s slaughtering plant in the State (located in Slane, Co. Meath) does not slaughter live lambs and sheep.



	Abattoirs in the island of Ireland	
APB	4 ⁵⁷	[40-45]
Kildare Chilling Company	1	[15-20]
Kepak	1	[15-20]
Dawn Meats	1	[10-15]
Dunbia	1	[5-10]
Jennings	1	[0-5]
Others	3	[0-5]
Total		100

Source: The Commission, based on estimated market shares provided by the Parties.

149. Following completion of the Proposed Transaction, Dawn Meats will become the third largest purchaser of live lambs and sheep for slaughter in the island of Ireland with an estimated market share of [15-20]%. A combined estimated market share of [15-20]% with an increment of [5-10]% resulting from the Proposed Transaction is not in itself a strong indication of likely competition concerns. For the reasons set out below, the Commission considers that the Proposed Transaction raises no competition concerns in the potential market for the purchase of live lambs and live sheep for slaughter in the island of Ireland.
150. First, there is no evidence to suggest that the parties are close competitors in the purchase of live lambs and live sheep for slaughter in the island of Ireland. Dawn Meats operates one lamb and sheep slaughtering facility in the island of Ireland located in Ballyhaunis, Co. Mayo. Dunbia operates one lamb and sheep slaughtering facility in Dungannon, Co. Tyrone, a distance of 177km from Dawn Meats' slaughtering facility in Co. Mayo. As noted above, Dunbia does not currently purchase any live lambs or sheep for slaughter from farmers located in the State.
151. Following completion of the Proposed Transaction, Dawn Meats will face competition from a number of lamb processors currently active in the purchase of live lambs and sheep for slaughter in the island of Ireland, including ABP (the clear market leader, as can be seen in Table 4 above, with a market share of [40-45]%), Kildare Chilling Company, Kepak and Lakeview Farm Meats Limited.⁵⁸
152. Second, ABP, Kildare Chilling Company and Kepak all expressed the view to the Commission that the Proposed Transaction will have no impact on competition in the purchase of live lambs and sheep for slaughter in the island of Ireland.

⁵⁷ ABP operates one lamb and sheep slaughtering facility in the island of Ireland (located in Lurgan, Co. Armagh). As noted above, ABP also jointly controls (with Fane Valley Co-operative Society Limited) Irish Country Meats which operates two lamb and sheep slaughtering facilities in the State. Finally, as noted above, the proposed transaction whereby ABP and Fane Valley Co-operative Society Limited would acquire joint control of the Linden Food Group was notified to the European Commission on 25 August 2017. Linden Food Group operates a lamb and sheep slaughtering facility in Northern Ireland. The outcome of the European Commission's investigation does not affect the conclusions of the Commission as set out in this determination.

⁵⁸ Lakeview Farm Meats Limited operates a beef and lamb slaughtering facility in Northern Ireland.



153. Third, the Commission's market inquiries confirm the following statement expressed by the European Commission in the 2016 Decision in relation to the possibility of switching by farmers between lamb processors in the island of Ireland:

*"...farmers can switch easily, within a short timeframe and with limited costs between slaughterhouses for sales of lamb and sheep for slaughter in the [island of Ireland]."*⁵⁹

154. ABP, Kildare Chilling Company and Kepak all expressed the view to the Commission that switching by farmers between lamb and sheep slaughterhouses is a feature of the industry and that there are no costs, impediments, or disincentives which make it difficult for farmers to switch between lamb and sheep slaughterhouses.
155. The Commission considers that the loss of competition between Dawn Meats and Dunbia following implementation of the Proposed Transaction is unlikely to lead to competition concerns since farmers will be able to switch to competing lamb and sheep slaughterhouses in the island of Ireland should Dawn Meats decide to reduce the price paid to farmers for live lambs and sheep for slaughter.
156. Finally, lamb and sheep slaughterhouses in the island of Ireland appear to have spare capacity such that they could purchase more live lambs and sheep for slaughter if Dawn Meats offered lower prices to farmers for live lambs and sheep following completion of the Proposed Transaction. In the 2016 Decision, the European Commission concluded that slaughterhouses in the island of Ireland have "...significant spare capacities".⁶⁰ All lamb processors contacted by the Commission expressed the view that slaughterhouses in the island of Ireland have spare capacity.
157. In conclusion, the Commission considers that Dawn Meats will not have the ability and incentive following completion of the Proposed Transaction to unilaterally lower the prices paid to farmers for live lambs and sheep for slaughter in the island of Ireland.
158. The Commission contacted a wide range of third parties during its investigation and none raised any concern about coordinated behaviour prior to the Proposed Transaction in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland. Furthermore, for the same reasons as those set out in paragraphs 114-135 above and in light of the absence of any evidence of coordinated behaviour prior to the Proposed Transaction, the Commission considers that the Proposed Transaction will not make it sufficiently more likely that Dawn Meats and its competitors will engage in coordinated behaviour in the potential market for the purchase of live lambs and sheep for slaughter in the island of Ireland as to substantially lessen competition.

Vertical Relationship

⁵⁹ Paragraph 342 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods*. See paragraphs 342-352 of the European Commission's decision for a detailed discussion of the possibilities of switching by farmers between lamb processors in the island of Ireland.

⁶⁰ See paragraphs 353-358 of the European Commission's decision in *Case M.7930 – ABP Group/Fane Valley Group/Slaney Foods* for a detailed discussion of spare capacity in the live lambs and sheep slaughtering sector in the island of Ireland.



159. As noted above, there is a vertical relationship between the parties in the State. Dunbia (Slane) currently supplies fresh beef meat to Dawn Farm Foods Limited, an industrial processor supplying cooked and fermented meat ingredients to the foodservice and manufacturing sectors which is ultimately owned by the Queally Family. The Queally Family is the majority shareholder in QBD, the ultimate parent company of Dawn Meats. The value of such sales by Dunbia (Slane) in 2016 was approximately €[...].
160. The Commission considers that the Proposed Transaction will not lead to any vertical foreclosure concerns. Dawn Meats will not have the ability to foreclose industrial processors in the State following implementation of the Proposed Transaction. As noted in paragraph 66 above, Dawn Meats will, following completion of the Proposed Transaction, face competition from several suppliers of fresh beef meat to industrial processors in the State. These include ABP, Kepak, Jennings and Liffey Meats. It is also significant that Dawn Meats currently purchases fresh beef meat from competing beef processors in the State, including Ashbourne Meat Processors, Euro Farm Foods and Kildare Chilling Company.
161. In light of the above, the Commission considers that the Proposed Transaction will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

162. The share purchase agreements referred to in paragraph 3 above contain a number of restrictive obligations on Dawn Holdings and Mr. Jim Dobson. These include non-compete and non-solicitation clauses. The duration of these restrictive obligations does not exceed the maximum duration acceptable to the Commission⁶¹. The Commission considers these restrictions to be directly related to and necessary for the implementation of the Proposed Transaction.

⁶¹ In this respect, the Commission follows the approach adopted by the EU Commission in paragraphs 20 and 26 of its “Commission Notice on restrictions directly related and necessary to concentrations” (2005). For more information see [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52005XC0305\(02\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52005XC0305(02)&from=EN)



Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, as amended, has determined that, in its opinion, the result of the proposed transaction involving (i) the acquisition by Dawn Meats Ireland Unlimited Company of sole control of Dunbia (Ireland) Limited and its wholly owned subsidiary Dunbia (Slane), and (ii) the establishment by Dawn Holdings and Mr. Jim Dobson of a joint venture company which will acquire the beef and lamb businesses in the United Kingdom of the Dunbia group of companies and of the Dawn Meats group of companies, will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the transaction may be put into effect.

For the Competition and Consumer Protection Commission

Brian McHugh
Member
Competition and Consumer Protection Commission



Appendix A: Econometric Analysis: Time Trend and Seasonality

- 1.1 To inform the Commission's analysis of pricing in the potential market for the supply of live cattle for slaughter in the State, the Commission conducted an econometric analysis of the prices paid by slaughterhouses for live cattle for slaughter over the period 3 January 2011- 10 September 2017.
- 1.2 The Commission examined the following two questions:
 - a) Do the prices paid by slaughterhouses for live cattle for slaughter in the State exhibit seasonality over the period 2011-2017?
 - b) Have the prices paid by slaughterhouses for live cattle for slaughter in the State fallen over the period 2011-2017?
- 1.3 Appendix A is divided into the following sections:
 - a) Methodology;
 - b) Data;
 - c) Results; and
 - d) Assessment of the results.

Methodology

- 1.4 Using ordinary least squares ("OLS") regression, the Commission examined whether the prices paid by slaughterhouses for live cattle for slaughter in the State exhibit seasonality or a time trend.
- 1.5 To capture the effect of seasonality, the Commission created dummy variables to capture the period in autumn in which prices typically fall. As it is difficult to precisely identify when the period of lower prices ends, a dummy variable was created for (a) the months of August, September and October; and (b) the months of August, September, October and November.
- 1.6 To estimate the effect of the time trend, the Commission created yearly dummy variables which capture the effect of each individual year on prices, and a time trend variable which captures any time trend.
- 1.7 The OLS regression can be shown as follows:

$$Price_{it} = \alpha_0 + \beta_1 Season + \beta_2 Time + u_i$$

where $Price_{it}$ represents the price in factory i in month t .

Data

- 1.8 The Commission's econometric analysis used weekly data over the period 3 January 2011-10 September 2017 for the average price per kilogram paid by all DAFM export-approved slaughterhouses for R3= steers as reported in "*Beef Factory Prices (Weekly*



Reports)⁶² published by DAFM on its website.⁶² From this, the monthly price of an R3= steer at each DAFM export approved slaughterhouse was computed.

1.9 The price of R3= steers was chosen as steers are the largest live cattle type and while not every slaughterhouse purchases each category of live cattle, all slaughterhouses purchase live steers for slaughter. Live steers represent approximately 35% of the total national live cattle kill per annum. Slaughterhouses use R3= as the base rate from which to estimate the price per kilogram of a live steer, adding and subtracting as live steers vary from this grade. It is for this reason that the price of an R3= steer is the most representative measure of the price paid for live cattle by slaughterhouses in the State.

1.10 Table 5 below presents the results of the Commission's OLS regression analysis.

Results

Table 5: OLS Regression Analysis, 3 January 2011-10 September 2017

	Year Dummy		Time Trend	
	(1) Factory Price	(2) Factory Price	(3) Factory Price	(4) Factory Price
<i>Low Season (Aug,Sept,Oct)</i>	-11.10*** (-14.13)		-10.14*** (-7.99)	
<i>Season (Aug,Sept,Oct,Nov)</i>		-12.66*** (-17.98)		-11.36*** (-9.83)
<i>Time trend</i>			4.302*** (15.59)	4.21*** (15.38)
<i>2012</i>	45.28*** (37.85)	45.37*** (38.99)		
<i>2013</i>	67.28*** (56.18)	67.37*** (57.85)		
<i>2014</i>	31.43*** (26.08)	31.55*** (26.92)		
<i>2015</i>	56.58*** (47.12)	56.69*** (48.54)		
<i>2016</i>	35.69*** (29.75)	35.79*** (33.51)		
<i>2017</i>	45.84*** (34.25)	45.69*** (34.23)		
<i>Adj. R-squared</i>	.665	.681	.136	.149
<i>Observations</i>	2017	2017	2017	2017

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Source: The Commission

⁶² These reports can be accessed at

<https://www.agriculture.gov.ie/farmingsectors/beef/beeffactorypricesweeklyreports/>



Seasonality

- 1.11 As can be seen in Table 5 above, the dummy variable *Season* is statistically significant at the 1% level in both OLS regressions. As the sign of the coefficient is negative, this means we can reject with 99% confidence that prices are not lower in the months of August, September and October, or the months of August, September, October and November. The size of the effect is economically significant, with prices 10-12 cents per kilogram lower in the months of August, September, October and November, compared to the rest of the year.

Time Trend

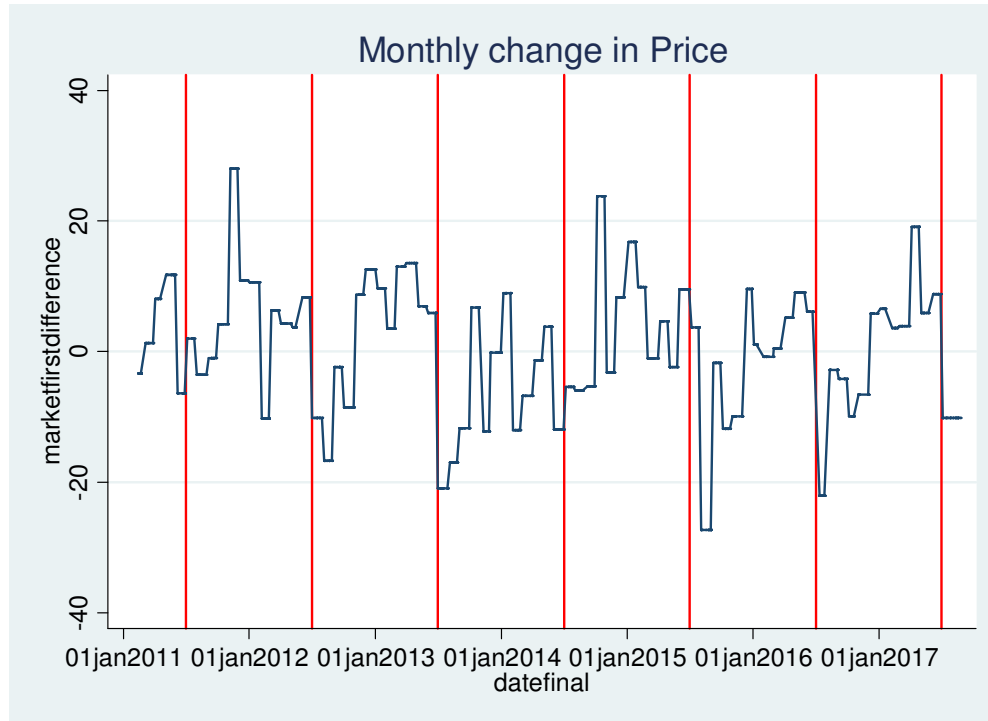
- 1.12 As can be seen in Table 5 above, the dummy variable *Time Trend* is statistically significant at the 1% level in the *Regression with a Time Trend*. As the sign of the coefficient is positive, the Commission can reject the null that prices were not increasing over the period 3 January 2011-10 September 2017 at the 99% level.
- 1.13 In the *Year Dummy* regression, all of the annual dummy variables are statistically significant. As the signs of all the coefficients are positive, the Commission can reject the null that the prices paid by slaughterhouses for live cattle for slaughter in the State was not higher in each year than in 2011.

Assessment of the results

Seasonality

- 1.14 With respect to the question of whether the prices paid by slaughterhouses for live cattle for slaughter in the State exhibit seasonality over period 3 January 2011-10 September 2017, the results suggest that the prices paid for a R3= steer are lower by 10-12 cents per kilogram in the period following July.
- 1.15 This is illustrated in Figure 3 below which shows that the price change is typically large and negative at the beginning of this period (August), and prices only achieve positive growth after falling for some months.

Figure 3: Monthly change in the average price, 3 January 2011- 10 September 2017



Source: The Commission

- 1.16 On this graph, it can be seen that a fall in price occurred in 5 of the 7 periods immediately following July (represented by vertical red lines),⁶³ and in 3 of these the fall was above 20 cents.⁶⁴ This highlights that large price falls in these months are common.

Trend

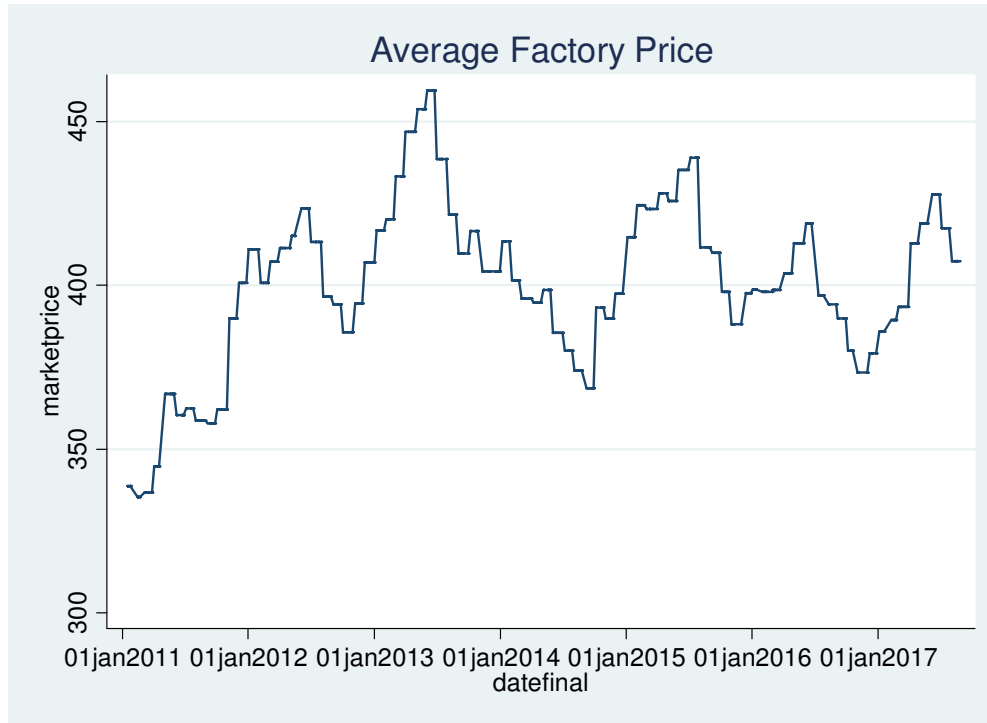
- 1.17 The Commission's econometric analysis illustrates that (a) prices have risen over the period 2011 to 2017, with prices being statistically significantly higher in every year since 2011; and (b) the time trend variable shows that prices have been increasing over the period 2011 to 2017.
- 1.18 Figure 4 below illustrates that most of this price increase occurred in 2011, with prices fluctuating around a new higher equilibrium around 400 cents per kilogram since January 2012. The Commission believes that this finding of an increase in prices is overly sensitive to the choice of base period.⁶⁵

Figure 4: Slaughterhouse prices per kilogram for R3 Steers, 3 January 2011-1 January 2017

⁶³ All except 2011.

⁶⁴ The years 2013, 2014 and 2016.

⁶⁵ To test this, the Commission used different years as the base period and found that while the coefficient for the *Time Trend* variable was always statistically significant, the sign often changed from positive to negative. The coefficient was positive for the base periods 2013, 2014 and 2016 and negative for 2012 and 2015. The Commission notes that starting the series in 2010 would likely have increased the significance of the *Time Trend* variable because prices in 2010 were lower than in 2011.



Source: The Commission

- 1.19 The Commission notes that year-on-year since 2012 prices exhibit relative stability once seasonality is taken into account. This, combined with the increase in prices pre-2012, suggests that a structural break occurred after which beef prices fluctuate around a new higher equilibrium of around 400 cent per kilogram.
- 1.20 As Table 6 below illustrates, prices have not demonstrated a consistent trend, upward or downward, over the period 2012-2017.

Table 6

Year	Average Price Per Kilogram	Change Year-on-Year
2011	360	
2012	405	Up
2013	427	Up
2014	391	Down
2015	416	Up
2016	395	Down
2017	407	Up (so far)

Source: The Commission