COMPETITION AUTHORITY

MERGER DETERMINATION M/03/029p2

The proposed acquisition of Galtee Meats (Charleville) Ltd by Dawn Meats Limited

SECTION ONE: INTRODUCTION

THE NOTIFICATION

1.1 On 9 September 2003 the Competition Authority, in accordance with Section 18(1) of the Competition Act, 2002 ("the Act"), was notified on a mandatory basis of a proposal whereby Dawn Meats Ltd would acquire Galtee Meats (Charleville) Ltd from Dairygold Co-operative Society Ltd.

THE PARTIES

1.2 Dawn Meats Ltd ("Dawn") is engaged in the slaughtering and processing of beef and lamb, the trading and distribution of meat, and the rendering of by-products. Dawn is a privately held group of companies; the majority shareholding is owned by the Queally family. The Queally family also holds a majority shareholding in a company that is active in beef processing, through a subsidiary company - QK Meats Ltd in Naas, Co. Kildare[1].

1.3 Galtee Meats (Charleville) Ltd ("Galtee") is a wholly owned subsidiary of Dairygold Co-operative Society Ltd, and is engaged in beef slaughtering and processing in Charleville, Co. Cork.

PROCEDURAL HISTORY

1.4 On 9 October 2003, the Competition Authority determined, in accordance with Section 21(2) of the Competition Act, 2002, to carry out a full investigation under Section 22 of the Competition Act, 2002.

[1] QK Meats Ltd is a company active in beef processing that is also controlled by the majority shareholder in Dawn - the Queally family

SECTION TWO: MARKET DESCRIPTION AND ANALYSIS

A: THE SUPPLY OF BEEF IN IRELAND

2.1 The activities of Dawn and Galtee overlap in the areas of cattle slaughtering, and the processing ("de-boning") of carcasses to produce beef for sale to retailers, manufacturers and the catering trade.

2.2 The typical chain of production of beef is as follows.

- Cattle are brought from the farm to an abattoir/slaughter house.
- The carcass is then "de-boned" to produce "primary cuts" of beef, and "5th quarter" material such as offal. De-boning may take place at the same processing plant where cattle are slaughtered, if the plant is vertically integrated, or at another (vertically integrated) processor's plant or at a separate boning hall which does not slaughter cattle.
- Primary cuts are then exported, further processed by manufacturers of beef products (e.g. ready meals), or further processed into smaller cuts appropriate for catering or retail sale. Retail cuts may be done in-store, as one sees in a butcher's shop, or by the primary processor, or by an intermediary on behalf of the retailer.

2.3 Galtee has one slaughtering and de-boning plant, located in Charleville, Co. Cork; Dawn operates six plants in the State, one of which is located in Midleton, Co. Cork. The Galtee plant and the Dawn Midleton plant currently slaughter around 58,000 and 65,000 head of cattle per annum respectively, and are located approximately 40 miles apart.[2] Both plants have de-boning facilities. QK Meats de-bones cattle but does not have slaughtering facilities. Reference to the map at the end of this document may assist in understanding the spatial relationships involved.

2.4 Plants that are vertically integrated also sell bone-in beef to independent boning halls and to other vertically integrated plants. In fact, a high proportion of Galtee's sales are sales of bone-in beef, despite the fact that Galtee has its own de-boning facilities.[3]

2.5 The following analysis will address the upstream procurement of cattle for slaughter (the primary input for the beef industry), and the downstream sale of boneless beef to all customer types.

[2] Source: parties' figures confirmed by independent research.
[3] For example: in 2002, 40% of cattle slaughtered by Galtee went into sales of bone-in beef.

B: THE PROCUREMENT OF CATTLE

The relevant product market

2.6 Depending on the requirements of their customers, each beef processor has a particular profile for cattle procurement. For example, Dawn's Midleton plant only slaughters steers and heifers under 30 months. Thus it does not slaughter cows, whereas Galtee slaughters all types of cattle.[4] Many customers insist that cattle come from Bord Bia approved farms. Cattle are graded according to the five grades of the EUROP system, e.g. ranging from E = excellent to P = Poor.

2.7 Since the BSE crisis occurred, many customers purchase only beef, which comes from cattle under 30 months old. Furthermore, the under 30 months cattle must be slaughtered in the morning before the over 30 months cattle are put through the slaughterhouse. Some customers, including all major Irish retailers, insist that their beef come only from plants that do not slaughter cows at all. As a result, some plants only slaughter steers and heifers under 30 months, and no cows.

2.8 Dawn operates two plants that only slaughter younger cattle and do not slaughter cows - one in Midleton and one in Ballaghadreen. The Midleton plant also has a nearby smaller facility that slaughters cows and other cattle over 30 months. Another Dawn plant, in Ballyhaunis, slaughters a high proportion of cows. Galtee's cattle kill includes cattle under 30 months and over 30 months, and is composed, approximately, of: just over 40% cows, over 50% steers, with the remainder being heifers. Galtee's share of the national cow kill, at 6-7%, is therefore much higher than its share of the overall national cattle kill (3.25%). In fact, Dairygold bought the Galtee plant in part to service the members of the co-operative, ensuring that they had a buyer for their cows.

2.9 The relevant product market can be defined as the procurement of cattle for slaughter. This does not preclude analysis of market segments for different types and ages of cattle, and possibly for each grade therein.

The relevant geographic market

2.10 At least 90% of an export-approved processor's supply of cattle comes from within a 60-mile radius of the plant; and approximately 60% comes from within a 30-mile radius. Beef processing plants employ agents to source cattle within a certain area, supplemented by a procurement team which also buys direct from farmers who seek price quotes. Cattle are transported to the plant by the farmers themselves or by the

[4] Though commonly used to describe all cattle, *cows* are defined as mature female bovines that have given birth to a calf. A *heifer* is a female bovine that has not yet had a calf or developed the mature characteristics of a cow. A *steer* is a male bovine that has been castrated. A *bull* is a male bovine used for breeding purposes.

agents (or hauliers employed by agents/farmers), not by the plants. This suggests that the market or catchment area of a particular processing plant may be local in nature.

2.11 Market enquiries indicated that farmers tend to sell their cattle to nearby plants because the prices offered do not differ significantly from plant to plant or area to area. Thus farmers choose a particular set of plants to deal with on an on-going basis, taking into consideration the convenience of the plant's location and the longer-term relationship.

2.12 Farmers negotiate prices with a number of plants for each sale. Market enquiries indicated that a 3% differential in price would not be enough to induce farmers to seek a better price from a plant they don't normally deal with, but that a 5% differential would cause them to look elsewhere. The bulk of transport costs for cattle relate to the loading and unloading of the cattle; according to market enquiries, 5% extra per kilo would more than compensate for the additional distance.[5]

2.13 Thus, the market or catchment area of a particular processing plant may be wider than the 60-mile radius initially suggested. Indeed, the prices published in the *Farmers Journal* every week confirm that there is no systematic differential in cattle prices across localities. It may be that the current number and spread of beef processing plants in Ireland, and their overlapping catchment areas, have led to a "chain of supply" effect whereby the geographic market for procurement of cattle in Ireland is national.

2.14 For the purposes of this analysis, however, it is unnecessary to make a final determination on this point, as Galtee has only one plant.[6] As such, even if the market was limited to a locally determined radius, there are sufficient other competitors to exercise a significant check on its plant.

Market structure

2.15 Over 1.7 million head of cattle are slaughtered in Ireland every year.[7] 279 small domestic abattoirs account for just 6% of the annual cattle kill. The other 94% goes through export-approved abattoirs. Domestic abattoirs slaughter between 100 and 1,000 cattle per annum and are licensed to sell beef within the State. Any abattoir in Ireland that slaughters upwards of 1,000 head of cattle per annum is required to have an EU export licence from the Department of Agriculture and Food, whether or not it exports its product. Abattoirs that do export to the EU, and beyond, typically slaughter around 50,000 head of cattle

[5] Some processors have a list of farms approved for a particular scheme or downstream customer. The processor may pay the farmer a premium for cattle reared to the particular scheme/customer specifications, but the price offered would still have to be greater than prices offered by neighbouring processors as the farmers are not obliged to provide cattle to the processor operating the scheme.
[6] Dairygold did operate a boning hall in Kilbeggan, Co. Westmeath, but this has recently closed and the assets are being sold off.
[7] Bord Bia Meat Statistics - Cattle and Beef.

per annum. Each of Dawn's plants, Galtee, and QK Meats, are all export-approved.

2.16 Dawn has a 16.25% share of the cattle kill in Ireland; Galtee has a 3.25% share.[8] Post-acquisition, Dawn's share of the national cattle kill will be around 20%, making it the largest purchaser of cattle for slaughter in Ireland, just ahead of AIBP (18%) and Kepak (15%). Thus the major beef processors in Ireland, and their share of the national cattle kill, will be as in Table 1 below.

Table 1: Major Irish beef processors' share of national cattle kill post-merger.

Beef Processor	Number of Plants	Share of National Kill
Dawn	7	20%
AIBP	7	18%
Kepak	3	15%
Kildare Chilling	1	6%
Liffey Meats	1	5%
Exel Meats	2	5%
Fair Oaks	2	4%
Slaney Meats	1	3%
Ashbourne Meats	1	3%
DMP	1	3%
Bergin Meats	2	3%

Source: Parties' own figures supplemented with independent research.

2.17 The parties stated that there are at least seven other export-approved beef processing plants in the south west of Ireland that currently compete for cattle supplies with Galtee's plant and Dawn's Midleton plant (see map at Appendix 1). Four of these are owned by AIBP, and one is a Kepak plant. The others are Fair Oaks in Clonmel and Glynns of Patrickswell, Co. Limerick. AIBP Bandon slaughters approximately 65,000 head of cattle per annum; the figures for AIBP Rathkeale, AIBP Cahir, and AIBP Nenagh are 55,000; 50,000 and 55,000 respectively.[9]

[8] Source: parties' figures confirmed by independent research.
[9] Source: independent research.

The Kepak plant is located in Watergrasshill, Co. Cork; it slaughters around 50,000 head of cattle per annum.

C: DOWNSTREAM MARKETS FOR BONELESS BEEF

2.18 Up to 90% of the total beef output in Ireland is produced for export. Irish beef exports were valued at €1,185 million in 2002.[10] Domestic consumption of beef represents just 12.75% of total beef production. Irish beef exporters face international market prices abroad, and have little control over the prices they sell at. Export-approved beef processors also sell beef within Ireland, to retailers, hotels and restaurants, traders, catering wholesalers, and meat products companies.

2.19 Some of the 20 or so export-approved beef processors in Ireland sell only to the domestic market.[11] Each export plant (and company), in general, has certain “core customers”, to whom it supplies a significant amount of beef on a weekly basis. Core customers may count for up to 80% of a plant’s business but, as they don’t buy 100% of the animal, the plant’s sales personnel also have to find other customers for the off-cuts.

2.20 Around 85% of each of the parties’ product is exported; either directly by the parties themselves, or via a trader or manufacturer. Galtee’s core customers are located in other EU countries; critically, it does not supply the Irish retail sector. The parties have very few customers in common - the only area of overlap is in regard to traders or other processors.

Retail beef sales

2.21 At the retail level in Ireland, Irish beef is strongly preferred over imported beef. Retail multiples account for 69% of beef sales at retail level in Ireland.[12] The remaining 31% of retail beef sales are through traditional butchers and some independently owned grocery stores. The 600 or so retail butchers in Ireland source beef mainly from domestic abattoirs. Market enquiries indicated that the number of retail butchers supplied by export-approved processors is rising, however. Thus, export-approved processors account for *at least* 70% of retail beef sales in Ireland.

2.22 The retail multiples in Ireland require that all their beef comes from cattle (not including cows) under 30 months, and that cows are not slaughtered on the same premises. The retail multiples source beef only from export-approved processors that are vertically integrated - i.e. have both slaughtering and de-boning facilities. An export licence is a

[10] Bord Bia Annual Review.
[11] One unit is the equivalent of one adult bovine or two butchers heifers.
[12] “Meat Sales in Republic rise to 134,000 tonnes”, *Farming Life*, 20 August 2003.

recognised quality standard, and dealing with the larger size of export licensed beef processor is easier, from a group management point of view, than trying to manage, say, thirty small processors supplying individual supermarkets.

The relevant geographic market

2.23 Beef may be sold for export or may be sold in the State. Given the strong consumer preference for Irish beef, and the fact that beef for retail can be easily sourced from many locations, the geographic scope of the retail market is the State.

2.24 Thus the relevant product market, for export-approved beef processors, is the market for boneless beef from steers and heifers under 30 months in the State.

Large Buyers

2.25 Two of Ireland's four major retailers, Superquinn and SuperValu/Centra, have appointed a single beef processor as their sole source of supply - AIBP and Kepak, respectively. Tesco Ireland uses four approved processors, including Dawn. Dunnes Stores sources up to 95% of its beef from an intermediary subsidiary company, Tender Meats Ltd. The retailers must approve each processing plant that may supply their approved processor(s) and some even approve only certain farms. For example, only Dawn's Ballaghadreen and Midleton plants are approved to supply Tesco Ireland - both plants slaughter only cattle under 30 months and do not slaughter cows. Also, although Kepak was recently appointed as SuperValu/Centra's sole supplier, Kepak may source beef from plants that were previously approved as suppliers of SuperValu/Centra, including Dawn's Midleton plant.

2.26 The retailers negotiate prices with each processor individually on a regular basis. Such prices are generally not transparent. Also, there appears to be limited changing of accounts – retailers generally use the same suppliers over time, and it seems unusual for suppliers to obtain much new business from large retailers.

2.27 Beef sold at retail level in Ireland must be packed in accordance with Food Safety Authority requirements. Some Irish retail multiples have their supplier(s) package the beef for the end consumer, thus requiring the processor to have retail packing facilities.

Market structure

2.28 Dawn sells beef direct to local butchers, to Dunnes Stores' main supplier (Tender Meats), and to Tesco Ireland. Dawn estimates that its share of beef sales to Irish retailers is less than 5%. Dawn further estimates that the combined sales of beef to Irish retailers by Dawn and QK Meats is less than 10% of the national sales.

Table 2: Suppliers of beef to Irish retail multiples.

Retail Multiple	Beef Processor
Superquinn	AIBP
Supervalu/Centra	Kepak
Dunnes Stores (via Tender Meats)	Dawn, Kepak, Jennings
Tesco Ireland	Dawn, Kepak, and 2 others

2.29 The export-approved processors with the largest shares of the retail market - Kepak, AIBP and Dawn - together supply 40-50% of retail beef sales in Ireland. Their individual shares differ and do not appear to exhibit stability over time.

Table 3: "Big 3" beef processors' share of Irish retail beef sales.

Beef Processor	Share of Retail Beef Sales
Kepak	≈20%
AIBP	≈15%
Dawn (& QK Meats)	<10%

Other channels of trade

2.30 Export-approved beef processors also sell beef within Ireland to traders, meat products companies, hotels and restaurants, and catering suppliers.

2.31 Market enquiries indicated that Dawn and Galtee compete with all other export-approved beef processors in Ireland and, to a certain extent, imports, for sales of beef to traders and meat products manufacturers in Ireland. For these customers, distance from the plant is not a factor, i.e. the market is at least national. Prices are negotiated with a number of plants for each sale. The customer will typically purchase a proportion of its beef requirements from a number of suppliers - with the individual volumes purchased reflecting the final negotiated prices. Thus each beef processor will know how its final price fared against its competitors' prices by the volume ordered.

2.32 According to the parties, sales to manufacturers are also influenced by a processor's ability to add-value. Market enquiries confirmed that processors may "treat" beef on-site for a core manufacturing customer before it goes to the customer for further processing.

2.33 The catering trade is serviced by local plants and through intermediary catering wholesalers. Catering wholesalers collect beef from the factory themselves and so the distance of the processing plant is a relevant factor taken into consideration by this particular customer type. Individual hotels and restaurants may also be supplied by a processing plant, using a delivery route, which ensures maximum transport efficiency. Dawn (using its Waterford plant) supplies a number of hotels and restaurants in the south of the State in this manner, and so to a certain extent competes with catering wholesalers for supplies of beef to hotels and restaurants in the South of Ireland. Dawn also supplies catering wholesalers, who in turn supply hotels and restaurants. The wholesalers compete with processing plants by offering smaller volume deliveries, extended hours of service, portioning of beef, etc. Galtee is not very active in this area, mainly because it kills a low proportion of cattle under 30 months and so has relatively low volumes of the main cuts required in the catering trade, but it does supply at least one catering wholesaler.

2.34 Market enquiries indicated that Galtee's relative strength in pig meat and pork products is not an advantage in any channel of trade for the beef industry and, more importantly, that customers do not specifically use Galtee as a check or bargaining tool on the prices they pay for boneless beef.

Barriers to entry

2.35 The parties stated that the industry does not appear to have significant barriers to entry. The parties stated that the number of EU licensed abattoirs in the State grew in the period 1997 to 2002.

2.36 The main costs of entry into beef slaughtering and processing sector at the export-approved level are:

Planning permission.

Integrated pollution control ("IPC") licence.

Export licence.

Rendering costs.

Grant aid.

Time.

2.37 In granting an IPC licence, the Environmental Protection Agency must be satisfied that the best available technology not entailing excessive costs will be used to prevent pollution.[13] For a green field site application, an IPC licence could cost up to €15,000 for the initial application plus any subsequent monitoring costs thereafter. Plants requiring an EU export approval licence will have Department of Agriculture and Food personnel conducting daily examinations and ensuring that the required hygiene levels and waste control procedures are followed at all times. Inspection fees are charged against each plant where these functions are conducted. Grant aid is no longer available for the construction of a slaughter facility, which has been the case in the past. Based on market enquiries and research, the Authority estimates that the time required to select an appropriate site, make all the necessary applications for planning approval and licences and have a plant built and operational is around four years.

2.38 Market enquiries indicate that the establishment of a meat processing plant on a green field site would take far too much time and (sunk) cost to be considered as a constraining influence on incumbent processors.

2.39 However, competitive constraints may arise through the purchasing of an existing processing plant and developing it to export-approved standards and capacity. Two recent examples of this avenue of entry are Exel Meats Ltd (2000) and EuroFarms Ltd (2003) in Co. Westmeath

[13] Industry can avail of the notes the Agency has prepared, to identify the technologies that can be used to eliminate, minimise, recycle, reuse and abate emissions and to determine the maximum level of emissions that will be permitted from new facilities.

SECTION THREE: ANALYSIS AND CONCLUSIONS

INTRODUCTION

3.1 There appear to be two markets potentially affected by the transaction: the market for the procurement of cattle for slaughter at a local-to-national level, and the market for retail beef from cattle under 30 months which is national.

THE MARKET FOR THE PROCUREMENT OF CATTLE FOR SLAUGHTER

3.2 Anti-competitive effects can exist with regard to the purchasing of inputs by a firm or group of firms possessing market power. Such effects tend to limit the amount produced and raise the price at which they are purchased, potentially leading to negative effects on downstream markets.

Competitive effects

3.3 Cattle are reasonably homogenous for a certain grade and age.[14] There is a high degree of transparency regarding market conditions in cattle procurement in Ireland; in particular in regard to prices paid to farmers and shares of the national cattle kill. Prices paid by each plant are published weekly in the *Farmers Journal* and other media. Each company's share of the national cattle kill seems to be widely known. The individual shares of export-approved processors do not appear to exhibit stability over time, however. AIBP's share has fallen from around 25% in 1996 to 18% in 2002; Dawn's share has grown over the same period, from 13% to 16.25%; a new entrant in 2000, Exel Meats in Westmeath achieved a 5% share in 2002. Galtee's share has dropped about 1% since 1996.[15]

3.4 The proposed acquisition will not affect the degree of transparency regarding market conditions in cattle procurement in Ireland. It will, however, increase the symmetry of Dawn and its main competitor, AIBP, in terms of the number of plants they operate. Dawn and AIBP will each have seven beef processing plants in the State and close to 20% of the national cattle kill. Together with Kepak they will account for almost 55% of the cattle kill in Ireland

3.5 Market information and analysis (presented in section 2) showed that farmers may switch to plants outside their locality in response to a once-off 5% reduction in local procurement prices. Also, if Dawn were

[14] There has been some attempt at branding, with the Angus beef label, but this refers to a particular breed of cattle.
[15] Source: Independent research

to reduce their cattle prices by just 3%, farmers could choose to supply one or more of the seven other export-approved plants in the Midleton/Charleville area. Crucially, these plants appear to have the excess capacity to cope with such an influx. Thus Dawn will not be able to exercise buyer power in the market for cattle procurement as a result of this transaction.

THE MARKET FOR BEEF FROM CATTLE UNDER 30 MONTHS

3.6 The impact of the transaction should be looked at in two areas: sale for export and sale within the State.

Competitive effects

Export markets

3.7 Exports markets will not be negatively affected because prices in such markets are not determined by Irish beef processors.

Ireland

3.8 As Galtee kills cows, this has ruled it out as a potential supplier to retail multiples over the past 7 years or so. This situation is not likely to change in the near future. Charleville is in the "Goldenvale" dairy area and thus Galtee is located in a dairy area, and there is likely to be a steady supply of cows in the area in the future.

3.9 This effect is likely to be strengthened after the EU's Fischler reforms come into effect next year. The Fischler reforms will remove the necessity for farmers to produce (and sell) cattle for slaughter in order to receive an EU subsidy. The reforms are therefore expected to have the effect of reducing the production of cattle for slaughter in Ireland. It is expected that dairy areas, such as the Goldenvale, will see less of a reduction, however, as the farmers will still need to produce cattle for dairy purposes.[16]

3.10 The retail multiples contacted stated that they do not specifically use Galtee as a check or bargaining tool on the prices they pay for beef.

CONCLUSIONS

Unilateral effects

3.11 Since the BSE crisis, major Irish retailers do not buy beef from plants where cows are slaughtered. As cows account for around 40% of Galtee's cattle kill, Galtee has been excluded from supplying the Irish

[16] Dairy cows need to calve to produce milk.

retailers for a number of years, and has not been a constraining influence on the supply of beef to Irish retailers. The four major Irish retailers indicated that they do not specifically use Galtee as a check or bargaining tool for the prices they pay for beef. As such, Galtee does not currently appear to exercise a competitive influence in the retail market, and thus the transaction is unlikely to give Dawn any extra market power

3.12 Whether or not Dawn acquires the plant, this situation is unlikely to change. Galtee is located in a dairy area and so, in the absence of the proposed transaction, would have continued to kill cows, thus ruling itself out of the Irish retail market. Dawn will continue to kill cows at the Galtee plant and to supply Irish retailers using its plants at Ballaghadreen and Midleton. As such, Galtee could not be regarded as a potential entrant to the retail market.

3.13 Galtee slaughters a relatively high proportion of cows and so does not have the volumes of the specific under-30 months cuts required by the catering trade. Manufacturers and traders operate on a national market and consider Galtee to be a small, inefficient player, whose absence will not significantly affect the market.

Co-ordinated effects

3.14 There are a number of factors that might suggest the possibility for coordinated behaviour in the Irish retail market. For instance, there are a small number of relatively large firms, with roughly equal market shares and cost structures. This can often be consistent with the facilitation of co-ordinated behaviour.

3.15 However, Galtee is not a constraining influence on the factors that would facilitate engaging in coordinated action by beef processors, predominantly because it does not compete in the Irish retail market, and is highly unlikely to do so given the nature and location of the Galtee plant. Also, other Irish customers of export-approved beef processors do not specifically use Galtee as a check or bargaining tool on the prices they pay for boneless beef. Thus, the merger should not enhance the likelihood of co-ordinated effects in the sale of beef to Irish retailers.

THE DETERMINATION

The Competition Authority, in accordance with Section 22(3) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Declan Purcell
Member of the Competition Authority

Terry Calvani

Member of the Competition Authority

Paul Gorecki

Member of the Competition Authority

20 November 2003

APPENDIX 1: MAP OF EXPORT-APPROVED PROCESSORS

Export-Approved Beef Processors in the State, 2002

Note: Donegal Meats Processors ("DMP"), Donegal, missing from map.