



Determination No. M/04/075 of the Competition Authority, dated 10 February 2005, under Section 21 of the Competition Act, 2002

Notification No. M/04/075 - The proposal by Munster Cattle Breeding Society Limited and Progressive Genetics Ireland Limited to establish National Cattle Breeding Centre Limited, a joint venture company

Introduction

1. On 14 December 2004 the Competition Authority ("the Authority"), in accordance with Section 18(1) of the Competition Act, 2002 ("the Act") was notified on a mandatory basis of a proposal whereby Munster Cattle Breeding Society Limited ("MCBS") and Progressive Genetics Ireland Limited ("Progressive") would together establish National Cattle Breeding Centre Limited ("NCBC"). NCBC will operate as an autonomous company on an indefinite basis. The notified transaction thus constitutes a merger within Section 16(1)(b) of the Act, and is hereinafter described as "the proposed joint venture".
2. On 13 January 2005, the Authority made a formal request for further information of both MCBS and Progressive, pursuant to Section 20(2) of the Act. Both parties complied with the request by letter from their legal representative dated 21 January 2005, being the "appropriate date" for the making of a determination under Section 19(6) of the Act.

The Parties

3. MCBS is based in Cork and has three shareholders - Dairygold Co-operative Society Limited ("Dairygold"), Castleisland Cattle Breeding Society, a subsidiary of Kerry Group plc ("Kerry"), and South Western Services Co-operative Society Limited ("SWS"). MCBS conducts cattle breeding programmes and supplies bull semen, mainly to its three shareholders¹. The shareholders in turn supply bull semen and related artificial insemination ("AI") services to end users, who are mainly agricultural co-operative societies or cattle farmers. MCBS and its shareholders operate in the Munster region.
4. Progressive's shareholders are mostly cattle farmers. Progressive conducts cattle breeding programmes and supplies bull semen and related AI services to end users, who are cattle farmers. Progressive's activities are concentrated in Leinster, Ulster and Connaught.

The Proposed Joint Venture Company

5. Under the proposed joint venture, MCBS and Progressive would transfer their established cattle breeding programmes into NCBC, which would operate an amalgamated programme at a single facility in County Meath. Post-merger, NCBC will only supply bull semen to MCBS and Progressive

¹ MCBS had total sales of €[...] in 2003: [80-90]% of sales were made to Dairygold, SWS and Kerry; [0-10]% were made to South Eastern Cattle Breeding Society, Co. Tipperary [...]; and the remainder sales consisted of exports to a small number of overseas customers.



within the State, but it will sell bull semen in overseas markets to customers of its choosing.

Analysis

6. MCBS and Progressive both operate in vertically linked sectors of the Irish cattle breeding industry: the upstream sector for the breeding and genetic evaluation of bulls and production of bull semen; and the downstream sector for the supply of bull semen and related AI services to end users. Under the proposed joint venture they would transfer their functions in the upstream sector into NCBC, thus merging their manufacturing activities while continuing to operate separately in the downstream sales sector.
7. The proposed joint venture will not substantially lessen competition in the manufacturing sector. A number of other (albeit smaller) cattle breeders operate in Ireland. But of more significance, the sector is global; bull semen is traded internationally and high quality semen from countries including Canada, the Netherlands and New Zealand is freely available in Ireland. State officials confirm that bull semen can be imported, subject to regulatory standards. The parties estimate that imported stocks account for over 60% of total sales in the State.
8. Post-merger, Progressive and the MCBS shareholders will source from a common supplier, but this will not effect competition in the downstream sector. Progressive, MCBS, Dairygold, Kerry and SWS will continue to supply their existing customers and there will be no change in concentration, nor will there be a change in the structure of the sector which would increase the likelihood of a co-ordinated price rise. It would not be in the parties' interest to raise prices for customers who are also members or shareholders. Also, customers have alternative options to the goods and services offered by the parties. Farmers can purchase and use their own bulls ("natural service"), dividing the incurred costs by sharing bulls, or they can purchase bull semen direct and use one of the other AI service providers that operate nationwide. Farmers, upon completion of an approved 5-day course, can also perform all AI tasks themselves (the "DIY" method). The viability of those alternative methods is supported by the following data:²

Calf Births in the State in 2003

Method of Conception	Number of Calf Births
A.I.	658,000
Bull – Natural Service	1,400,000
D.I.Y.	300,000
Infertile (15%)	400,000
Total	2,758,000

² The parties also appear to operate in distinct geographic regions, though consideration of the level of geographic overlap is unnecessary.



Determination of the Competition Authority

Determination

The Competition Authority, in accordance with Section 21(2) of the Competition Act, 2002, has determined that, in its opinion, the proposed joint venture between Munster Cattle Breeding Society Limited and Progressive Genetics Ireland Limited to establish National Cattle Breeding Centre Limited constitutes a merger within Section 16(1)(b) of the Act, which will not result in a substantial lessening of competition in markets for goods and services in the State. Accordingly, the joint venture may be put into effect.

For the Competition Authority

Edward Henneberry
Member of the Competition Authority