



DETERMINATION OF MERGER NOTIFICATION M/17/049 VERMILION OIL AND GAS IRELAND LIMITED/SHELL E&P IRELAND LIMITED

Section 21 of the Competition Act 2002

Proposed acquisition by Vermilion Oil and Gas Ireland Limited of sole control of Shell E&P Ireland Limited

Dated 21 September 2017

Introduction

1. On 14 August 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 whereby Vermilion Energy Inc., through its wholly-owned subsidiary Vermilion Oil and Gas Ireland Limited (collectively “Vermilion”), would acquire the entire issued share capital and thus sole control of Shell E&P Ireland Limited (“SEPIL”) from CPP Investment Board Europe S.a.r.l. (“CPPIB Europe”) which is a wholly-owned indirect subsidiary of the Canada Pension Plan Investment Board (“CPPIB”) (“the Acquisition of SEPIL by Vermilion”).

The Acquisition of SEPIL by Vermilion

2. The Acquisition of SEPIL by Vermilion is to be implemented by way of a legally binding put option agreement (“Put Option”) between CPPIB Europe and Vermilion which was signed on and is effective from 12 July 2017. CPPIB Europe intends to exercise its Put Option and sell to Vermilion the entire issued share capital of SEPIL.



3. SEPIL currently owns a 45% interest¹ in the Corrib Natural Gas Field (“Corrib”), which is located off the Irish coast². SEPIL is also the current operator of Corrib. Vermilion, through its wholly-owned subsidiary, Vermilion Energy Ireland Limited (“VEIL”), and Statoil ASA (“Statoil”)³ currently hold 18.5% and 36.5%, respectively, of the remaining (non-operating) interest in Corrib.
4. As background and related to the Acquisition of SEPIL by Vermilion, the Commission has also received a notification of a prior proposed transaction whereby CPPIB, through CPPIB Europe, would acquire the entire issued share capital and thus sole control of SEPIL from Shell Overseas Holdings Limited (“the Acquisition of SEPIL by CPPIB”)⁴. Prior to the Acquisition of SEPIL by Vermilion, pursuant to an internal restructuring within CPPIB, a 43.5% interest in Corrib will be transferred from SEPIL to a separate newly incorporated wholly-owned subsidiary of CPPIB in the State (“AcquiCo”). Following this internal restructuring, SEPIL and AcquiCo will conclude an asset sale and purchase agreement which will result in SEPIL retaining a 1.5% interest in Corrib.
5. Pursuant to the Acquisition of SEPIL by Vermilion, Vermilion will acquire the entire issued share capital of SEPIL and thus an additional 1.5% interest in Corrib, thereby increasing its existing interest in Corrib from 18.5% to 20%. It is also envisaged that Vermilion, through SEPIL, will acquire the role of operator of Corrib. Ultimately, following implementation of the Acquisition of SEPIL by Vermilion, CPPIB, through AcquiCo, will hold a 43.5% non-operating interest, Vermilion (collectively through VEIL and SEPIL) will hold a 20% operating interest and Statoil will hold a 36.5% non-operating interest in Corrib.

¹ SEPIL has a 45% interest in each of the petroleum lease and foreshore licence which have been granted to allow for the extraction of gas from Corrib, as well as in operating agreements for Corrib, which include field operating services, terminal operating and terminal services agreements.

² Corrib is a natural gas field located off the coast of County Mayo. Corrib includes the offshore well and sub-sea infrastructure. Gas from Corrib is extracted offshore and travels through a pipeline to a gas terminal at Ballagelly South, Bellanaboy Bridge, Co. Mayo. The pipeline is approximately 90 kilometres in length (83 kilometres are offshore linking the wells at Corrib to the landfall at Glengad and 9 kilometres are onshore linking the landfall at Glengad to the terminal). The main purpose of the terminal is to process and dry the gas by removing liquids so that it is suitable to flow into the Gas Networks Ireland (“GNI”) network. Gas flows from the terminal into the GNI network through the ‘Linkline’ which is a 150km pipeline connecting the terminal to the GNI network.

³ Statoil is a Norwegian multinational oil and gas company; see <https://www.statoil.com/>.

⁴ The Acquisition of SEPIL by CPPIB was notified separately to the Commission on 14 August 2017 as M/17/048 - Canada Pension Plan Investment Board / Shell E&P Ireland Limited.



The Undertakings Involved

Vermilion

6. Vermilion is a Canadian-based international oil and gas producer listed on the Toronto Stock Exchange and New York Stock Exchange⁵. Vermilion operates globally, with oil and gas properties onshore and offshore in North America, Europe and Australia. Vermilion is currently active in the State through its wholly-owned subsidiary, VEIL, which currently holds an 18.5% ownership interest in Corrib.
7. For the financial year ending 31 December 2016, Vermilion's worldwide turnover was approximately €[...], of which approximately €[...] was generated in the State.

SEPIL

8. SEPIL is currently directly owned by Shell Overseas Holdings Limited, which is owned and controlled by Royal Dutch Shell plc. Royal Dutch Shell plc is the parent company of the Shell group of companies ("Shell"), which is headquartered in The Hague in the Netherlands. SEPIL is therefore currently a wholly-owned indirect subsidiary of Royal Dutch Shell plc and, as such, is part of Shell. Following implementation of the Acquisition of SEPIL by CPPIB, SEPIL will become an indirect wholly-owned subsidiary of CPPIB, through CPPIB Europe.
9. SEPIL is the current operator of Corrib pursuant to operating and services agreements dated 14 October 2008 between the companies with interests in Corrib, namely: SEPIL, Statoil and Vermilion. Following implementation of the Acquisition of SEPIL by Vermilion, SEPIL will become a wholly-owned subsidiary of Vermilion and Vermilion, through SEPIL, will become the operator of Corrib.
10. For the financial year ending 31 December 2016, SEPIL's worldwide turnover was approximately €[...], [...] was generated in the State⁶.

⁵ see: <http://www.vermilionenergy.com/>

⁶ Considering SEPIL's reduced interest in Corrib from 45% to 1.5% following the internal restructuring within CPPIB (referred to in paragraph 4 above), the parties estimated an appropriate pro rata turnover figure of approximately €[...], representing the turnover that would have been generated by the 1.5% interest to be acquired by Vermilion as part of the proposed transaction.



CPPIB

11. CPPIB, headquartered in Toronto and with offices in London, Hong Kong, Luxembourg, Mumbai, New York City, Sao Paulo and Sydney, is a professional investment management organisation that invests the funds of the Canada Pension Plan (“CPP”) which are not needed to pay current pension benefits on behalf of its 20 million Canadian contributors and beneficiaries. As of 31 March 2017, the CPP fund was valued at \$316.7 billion.
12. CPPIB is governed and managed independently of the CPP and at arms'-length from governments. CPPIB operates four investment departments including: (a) Private Investments; (b) Public Market Investments; (c) Real Assets; and (d) Investment Partnerships. CPPIB's Natural Resources Group (which sits within CPPIB's Private Investments department), focuses on direct private investments in the oil and gas, power and renewables, and metals and mining industries. As of 31 March 2017, the CPPIB Natural Resources Group's portfolio consisted of nine direct investments valued at \$[...], none of which are located in the State.
13. The worldwide investment income for CPPIB for the financial year 2016 was approximately Canadian Dollars \$[...]. CPPIB, through the portfolio companies and investments over which it exercises control, generated turnover in the State⁷ in the financial year 2016 of approximately €[...]⁸.

Rationale for the Acquisition of SEPIL by Vermilion

14. The parties state in the notification that:

“The Corrib Field fits with CPPIB’s strategy to make direct, long-term investments in top tier assets. CPPIB does not wish to operate the Corrib Field and Vermilion has the necessary experience and operational track record in both onshore and offshore projects to assume the operator role.”

⁷ CPPIB's investments in the State include[...].

⁸ The parties state in the notification that the figure of \$[...] CAD has been converted using the spot conversion rate on 21 February 2017. The parties also state in the notification that the turnover in relation to portfolio companies has been pro-rated at 50% for jointly controlled entities and 100% for full control entities in accordance with the rules under the European Union Merger Regulation.



Third Party Submissions

15. No submission was received.

Competitive Analysis

Horizontal Overlap

16. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to define the precise relevant markets because doing so will not alter the Commission's assessment of the likely competitive effects of the Acquisition of SEPIL by Vermilion in the State. However, for the purposes of this determination, the Commission has considered the activities of the parties on the potential market for the production and wholesale supply of natural gas in the State.
17. Both of Vermilion and SEPIL are active in the production and wholesale supply of natural gas in the State through their existing interests in Corrib, i.e., 18.5% and 1.5%, respectively, immediately prior to the implementation of the Acquisition of SEPIL by Vermilion. The parties estimate, on the basis of 2016 entry and exit data from Gas Networks Ireland, that natural gas from Corrib met approximately 50-60% of the State's gas requirements. Based on this estimation and their respective ownership interest in Corrib, Vermilion is estimated to have a market share of approximately [...] % of the potential market for the production and wholesale supply of natural gas in the State and SEPIL is estimated to have approximately [...] % of that potential market. Therefore, the Acquisition of SEPIL by Vermilion would lead to an increase of less than [...] % in Vermilion's estimated existing share of the potential market for the production and wholesale supply of natural gas in the State.
18. In addition, there are number of other providers⁹ active in the potential market for production and wholesale supply of natural gas in the State, including international imports¹⁰ (with an estimated market share of [...] %), CPPIB (with an estimated market

⁹ Figures in brackets represent estimated market shares in the potential market for the production and wholesale supply of natural gas in the State, as provided by the parties.

¹⁰ The parties note that there is no publicly available information to reliably determine what share of these imports should be attributed to which international suppliers from the United Kingdom.



share of [...] % following the Acquisition of SEPIL by CPPIB), Statoil (with an estimated market share of [...] %) and Kinsale Energy (with an estimated market share of [...] %), which will act as a competitive constraint on Vermilion following implementation of the Acquisition of SEPIL by Vermilion. Therefore, the Commission is of the view that the Acquisition of SEPIL by Vermilion does not raise any horizontal competition concerns in the State.

19. For the reasons set out above, the Commission considers that the Acquisition of SEPIL by Vermilion is unlikely to result in a substantial lessening of competition in the potential market for production and wholesale supply of natural gas in the State.

Vertical Relationship

20. The parties have indicated in the notification that there is no vertical relationship between the activities of the parties in the State.
21. The Commission is therefore of the view that the Acquisition of SEPIL by Vermilion does not raise any vertical competition concerns in the State.

Conclusion

22. In light of the above, the Commission considers that the Acquisition of SEPIL by Vermilion will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

23. No ancillary restraints were notified.



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 acquisition, whereby Vermilion Energy Inc., through its wholly-owned subsidiary Vermilion Oil and Gas Ireland Limited, would acquire the entire issued share capital and thus sole control of Shell E&P Ireland Limited from the Canada Pension Plan Investment Board, through CPP Investment Board Europe S.à.r.l., will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Brian McHugh
Member
Competition and Consumer Protection Commission