EN

Case No COMP/M.5585 - CENTRICA / VENTURE PRODUCTION

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REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 21/08/2009

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.8.2009

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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party:

Dear Sir/Madam,

Subject: **Case No COMP/M.5585 – Centrica/ Venture Production**
Notification of 22/07/2009 pursuant to Article 4 of Council Regulation No 139/2004[1]

1. On 22/07/2009, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which Centrica Resources Limited controlled by Centrica plc ("Centrica", UK) acquires within the meaning of Article 3(1)(b) of the Council Regulation sole control of the whole of Venture Production plc ("Venture", UK) by way of public bid announced on 10/07/2009.

I. THE PARTIES

2. Centrica is a vertically integrated energy company active in both upstream and downstream gas operations predominantly in the UK where it is a natural gas and electricity supplier. In the UK it operates under the brand of a former national incumbent British Gas.

3. Venture is a company active in the exploration and production of natural gas and crude oil, with interests concentrated in the UK North Sea.

1 OJ L 24, 29.1.2004 p. 1.

II. THE OPERATION

4. On 10 July 2009 Centrica announced the terms of a cash offer to acquire the entire issued and to be issued share capital of Venture not already held by Centrica. Centrica's offer is not currently recommended by Venture's board of directors.

III. CONCENTRATION

5. The transaction concerns the acquisition of sole control of Venture by Centrica. As a consequence, the Proposed Transaction constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

IV. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion[2] (EUR 27 447 million). Each of them has a Community-wide turnover in excess of EUR 250 million but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

V. COMPETITIVE ASSESSMENT

7. The parties' activities overlap horizontally in the upstream markets of exploration, development, production and sale of crude oil and natural gas (primarily in the UK North Sea). Additionally, both parties have interests in offshore gas transportation infrastructure. This assessment also considers the vertical links that arises as a result of this transaction due to Centrica's operations as a wholesale trader and retail supplier of gas in the UK and the Netherlands.

Relevant product and geographic markets

(i) Exploration for crude oil and natural gas

8. Exploration i.e. the finding of new hydrocarbon reserves, constitutes a separate product market. In terms of market definition no distinction is to be made between the exploration for oil on the one hand and exploration for natural gas on the other, as the contents of underground reservoirs cannot be known at the stage of the exploration[3].

9. The exploration market is defined as worldwide in scope as the companies engaged in exploration do not tend to limit their activities to a particular geographical area[4].

(ii) Upstream production and sales of crude oil and natural gas

10. Upstream production and sales of gas involve the exploitation of the developed hydrocarbon reserves for crude oil and unprocessed gas. The Commission considered in

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2 Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1).

3 M.1532 BP Amoco/Arco, para 13-15

4 Idem, para 16

previous cases that as gas and crude oil have different applications and are subject to varying pricing behaviour as well as cost restraints, it is appropriate to define separate product markets for the upstream production of crude oil and another relevant market for the upstream production of natural gas[5].

11. The market for the upstream production and sales of crude oil is world-wide[6]. In contrast, owing to the logistical constraints on pipeline transport and infrastructure as well as from an EEA demand perspective, the geographic market for the upstream production and sale of natural gas is narrower is scope. In Statoil/Hydro[7] the Commission considered (though ultimately left open) whether the following geographic markets ought to be considered for the production of natural gas: i) the EEA; ii) an area comprising those EEA countries in which gas from the Norwegian continental shelf is sold or iii) each individual country in which the parties sell gas. In this case it is not necessary to come to a conclusion on the relevant geographic market as no competition problems arise even when the gas production market is analysed on the narrowest possible geographic market i.e. individual countries where the parties' activities overlap – the UK and the Netherlands.

(iii) Offshore Transportation and processing of natural gas and crude oil

12. When natural gas emerges from the well-head of a production facility, the stream contains gaseous hydrocarbons and hydrocarbon liquids. This unprocessed gas often requires transportation by pipeline to a facility at which it is processed by separating the gaseous and liquid constituents. Although the owners of natural gas fields require both transport and processing to be able to market their gas, clearly pipelines and processing facilities fulfil different functions and therefore the Commission considered it appropriate to separate the transport and processing markets to reflect the differing competitive conditions[8].

13. As regards the UK, the relevant geographic markets for the transportation and processing of gas are defined as the UK North Sea. Within the UK North Sea the Commission has previously distinguished between the Northern ("NNS") and Southern North Sea ("SNS"); being the area of UK North Sea lying to the north of latitude 55° N, and the area of the UK North Sea lying to the south of latitude 55° S respectively[9].

14. Crude oil can be transported from offshore fields by ship or pipeline; contrasting the position of natural gas which is generally transported by pipeline. For similar considerations as those for gas, the transportation of crude oil and crude oil onshore processing are considered as different product markets[10].

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5 Idem, para 14

6 Idem, para 16

7 M.4545 Statoil/Hydro, para 16

8 M.1532 BP Amoco/Arco, para 41

9 Idem, para 42-48

10 M.2745 Shell/Enterprise Oil, para 12

15. A UK North Sea geographic market is defined for crude oil infrastructures (transportation by pipeline and processing), with a possible sub-division between UK NNS and SNS[11].

(iv) Downstream supply of gas to domestic and non-domestic customers

16. The Commission considered the following gas supply markets in Gaz de France/Suez[12]: i) supply of gas to dealers (including the local distribution companies); ii) supply of gas to gas powered electricity plants; iii) supply of gas to large industrial customers; iv) supply of gas to small industrial and commercial customers; and v) supply of gas to household customers. Centrica considers that the precise segmentation of the downstream gas supply markets may vary across Member States depending on market characteristics and the regulatory environment. For example, in the UK there is a more liquid wholesale market comprising both physical and financial trade, and the local distribution companies do not typically operate as dealers.

17. For the competitive assessment in this case Centrica proposed to use a different segmentation of the UK gas retail market that has been previously followed by the British energy regulator – Ofgem i.e. i) UK domestic market and ii) UK non-domestic market. The market definition can be left open as the transaction would not raise competition concerns under any alternative market definition.

18. Previously, the product markets outlined above were considered by the Commission to be national[13]. Even on the basis of the product market definitions proposed by Ofgem national markets appear appropriate.

(vii) Market for wholesale trading (gas hub)

19. A gas-trading hub is a liquidity instrument that provides services to facilitate exchanges between actors on a market. Schematically, a hub facilitates trade between gas buyers and sellers, enabling them to find, at short notice, sufficient volumes of supplies or to sell excess capacity. In addition, trading at the hub differs notably from supply to retailers in that generally traders act as buyers and sellers[14].

20. The National Balancing Point (NBP) hub in the United Kingdom and the Title Transfer Facility (TTF) hub in the Netherlands are the relevant geographic markets for the UK and the Netherlands[15].

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11 Idem, para 15

12 M.4180 Gaz de France/Suez, Para 63

13 M.4180 Gaz de France/Suez, para 100-105

14 M.4180 Gaz de France/Suez, para 70-72

15 Idem, para 71

Competition assessment

(i) Exploration for crude oil and natural gas

21. Exploration for oil and gas is carried out on a worldwide scale where many players are active. These include the oil and gas majors such as Exxon/Mobil, BP, Shell, Chevron and Total as well as the National Oil Companies ("NOCs") such as Saudi Aramco, Gazprom, Sonatrach, etc. The NOCs hold an estimated 80-90% of the world's gas and oil reserves. On this worldwide market, the parties have a combined share below 1%.

(ii) Upstream production and sales of crude oil and natural gas

22. For the UK domestic natural gas production market, which is the most narrowly defined geographic market where the parties' activities overlap horizontally, the table below shows the market shares of the key players. The parties combined market share would be below 15%. The parties would continue to face competition from a number of other large companies having a similar market share of around 10%, therefore no competition concerns arise. In the Dutch production market the parties' combined share is estimated to be around 1%.

Source Form CO

	Production (bcm)	**Market Share (%)**
Centrica UK	[…]	[0-10]
Venture UK	[…]	[0-10]
UK combined	[…]	***[10-20]***
BP	[…]	[10-20]
Exxon	[…]	[10-20]
Shell	[…]	[10-20]
TFE	[…]	[10-20]
ConocoPhilips	[…]	[10-20]

Source Form CO

23. As with the exploration for crude oil and gas, the NOCs play a very significant role in the production of crude oil worldwide and, together with the 'majors', such as Mobil/Exxon, Shell and BP, account for a substantial proportion of that production. On a worldwide basis, the parties combined market share for the production of crude oil would be no higher than 1%.

(iii) Offshore Transportation and processing of natural gas and crude oil

24. Centrica submits that the parties' interests in offshore natural gas infrastructure in the UK North Sea and East Irish Sea are limited and generally comprise only of intra-field pipelines. Intra-field pipelines are installed to facilitate the development of smaller satellite fields through the transportation of production to existing host infrastructures. The market investigation confirmed that the parties would not be in a position to foreclose the access to any transportation and processing infrastructure of natural gas and/or crude oil.

25. Centrica holds no interests in oil pipeline infrastructure; therefore no overlap arises in respect to the oil infrastructure.

(iv) Downstream wholesale trading (gas hub)

26. Owing to the nature and multiplicity of wholesale trading activities (for example, the same volume of gas can be bought just once, or many times in a succession of separate trading deals) the notifying party claims that it is difficult to estimate market size of the UK wholesale market and therefore shares within the wholesale gas market. The majority of trading is performed on energy exchanges and brokerage platforms (eg. ICE and Trayport) but some trading also takes place on a bilateral basis and is therefore not visible to third parties. However, this bilateral element is believed to be small, for example, for Centrica [a large majority] of its wholesale gas trading is conducted on ICE or Trayport, and [a small minority] is conducted on a bilateral basis. In 2008 the volume of gas traded on Trayport and ICE was […] billion therms ([…] bcm).

27. In 2008 Centrica (through British Gas Trading) traded […] billion therms ([…] bcm) therefore Centrica's estimated share of the 2008 traded volume is [10-20%]. Venture has no significant activity on the wholesale market, therefore the market share addition to Centrica's position will be minimal and will not give rise to competition concerns. Given that the market shares of the parties are below 25% in the upstream gas production market, no vertically affected markets arise. The market investigation confirmed that the transaction would not have any adverse effect on the liquidity of the British wholesale gas trading.

(v) Downstream supply of natural gas

28. Centrica is present in the UK gas retail market through British Gas; its market share of the UK domestic retail market is [40-50%] in terms of number of UK domestic accounts, the market share in terms of volumes delivered is lower. Its estimated market share of the UK non-domestic retail market is [40-50%] in terms of number of sites served; the market share in terms of volumes delivered is much lower – [10-20%]. British gas is a leading supplier in the UK gas retail market for both residential and industrial customers.

29. As the parties would not have market power in the upstream gas production market (market share around [10-20%]), the transaction cannot give rise to input foreclosure on any possible downstream market. It can be argued that Centrica, through British Gas, is likely to have market power in the downstream gas supply market. However, as Venture has no significant activity on the downstream market for the supply of gas to end users, Centrica's downstream position will not be reinforced and the risk of customer foreclosure will not be aggravated by this transaction. Moreover, Centrica is currently facing the depletion of its existing UK gas production assets. Centrica produces enough gas to cover [a part] of its UK downstream needs. The outstanding [large part] must be purchased from third party gas producers. Even post-transaction a large proportion of Centrica's needs would still have to be covered from third party sources.

30. Centrica is active downstream in the Netherlands through Oxxio. Oxxio's estimated market share of the Netherlands retail residential gas market is [0-5%] and its estimated share of the Netherlands industrial retail gas market is [5-10%]. The parties only have

1% of total production in the upstream market in the Netherlands. Therefore no vertically affected markets arise in the Netherlands

31. Therefore due to the absence of the parties' upstream market power and no reinforcement of the Centrica's downstream supply position in the UK market for gas retail sale, any risk of input or customer foreclosure is unlikely to arise from the envisaged transaction. The market investigation confirmed that the transaction would not have any vertical anti-competitive effects on the market for downstream supply of natural gas in the UK.

VI. CONCLUSION

32. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EC) No 139/2004.

For the Commission
(SIGNED BY)
Algirdas ŠEMETA
Member of the Commission