



DETERMINATION OF MERGER NOTIFICATION M/18/062 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 5 September 2018

Introduction

1. On 7 August 2018, 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 Nephin Energy Holdings Limited (“NEHL”), a wholly owned subsidiary of 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. The Acquisition of SEPIL by Vermilion which is the subject of this notification was previously notified to the Commission on 14 August 2017 and cleared by the Commission on 21 September 2017 (Determination M/17/049 Vermilion Energy/*Shell E&P Ireland*) (“Transaction M/17/049”). However the parties have informed the



Commission that they may not be in a position to complete Transaction M/17/049 within the 12 month period provided for under section 19(3) of the Act as the Ministerial Consent required in order to complete the initial related transaction remained outstanding. Accordingly, the parties re-notified the Acquisition of SEPIL by Vermilion on 7 August 2018.

4. 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 Equinor Energy Ireland Limited (“Equinor Ireland”)³ currently hold 18.5% and 36.5%, respectively, of the remaining (non-operating) interest in Corrib.
5. 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, Nephin Energy Limited. Following this internal restructuring, SEPIL and Nephin Energy Limited will conclude an asset sale and purchase agreement which will result in SEPIL retaining a 1.5% 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 Equinor Energy Ireland Limited was formerly known as Statoil Exploration (Ireland) Limited. Statoil changed its name to Equinor in May 2018. see <https://www.equinor.com/>

⁴ The Acquisition of SEPIL by CPPIB was notified separately to the Commission on 7 August 2018 as M/18/061. This related transaction was also previously notified to the Commission on 14 August 2017 and cleared by the Commission on 21 September 2017 (Determination M/17/048 CPPIB / Shell E&P Ireland).



6. 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 Nephin Energy Limited, will hold a 43.5% non-operating interest, Vermilion (collectively through VEIL and SEPIL) will hold a 20% operating interest and Equinor Ireland will hold a 36.5% non-operating interest in Corrib.

The Undertakings Involved

Vermilion

7. 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.
8. For the financial year ending 31 December 2017, Vermilion's worldwide turnover was approximately €[...], of which approximately €[...] was generated in the State.

SEPIL

9. 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.
10. 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,

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



Equinor 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.

11. For the financial year ending 31 December 2017, SEPIL's worldwide turnover was approximately €[...], [...] which was generated in the State⁶.

CPPIB

12. 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 2018, the CPP fund was valued at \$356.3 billion.
13. 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 2018, the CPPIB Natural Resources Group's portfolio consisted of nine direct investments valued at \$[...], none of which are located in the State.
14. The worldwide investment income for CPPIB for the financial year ending 31 March 2018 was approximately Canadian Dollars \$[...]. CPPIB, through the portfolio companies

⁶ Considering SEPIL's reduced interest in Corrib from 45% to 1.5% following the internal restructuring within CPPIB (referred to in paragraph 5 above), the Parties have calculated the turnover of the SEPIL entity being acquired at the time of the Acquisition of SEPIL by Vermilion as follows: (i) taking SEPIL's entire 2017 turnover to represent its pre-Initial Transaction 45% interest in the Corrib Field and (ii) dividing that turnover by (45/1.5=) 30 to get the turnover that would have been generated by the 1.5% interest being acquired as part of the Acquisition of SEPIL by Vermilion.



and investments over which it exercises control, generated turnover in the State⁷ in the financial year 2017 of approximately €[...].⁸

Rationale for the Acquisition of SEPIL by Vermilion

15. 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.”

Third Party Submissions

16. No submission was received.

Competitive Analysis

Horizontal Overlap

17. 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.

18. 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 Gas Networks Ireland Winter Outlook 2017/2018, that natural gas from Corrib met approximately [...] % of the State’s gas

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

⁸ The figure of \$[...] has been converted using the average conversion rate of March 2017 of €1 = \$1.4306 CAD. 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.



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 approximately [...] % in Vermilion's estimated existing share of the potential market for the production and wholesale supply of natural gas in the State.

19. In addition, there are a 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 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.
20. 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

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

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.



Conclusion

23. 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

24. 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 Nephin Energy Holdings Limited, a wholly owned subsidiary of CPP Investment Board Europe S.a.r.l. which in turn is a wholly-owned indirect subsidiary of the Canada Pension Plan Investment Board, 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