



GAZDASÁGI
VERSENYHIVATAL

Herz might belong to the Csányi-group

The Hungarian Competition Authority (GVH) granted authorisation for Bonafarm to wholly acquire direct control over the property rights, tangible and intangible assets, stocks of Herz that is under liquidation.

Bonafarm Zrt. and Herz Salami Factory Zrt. signed a purchase and sale contract on 1 December 2009. Based on the contract, Bonafarm could acquire 100 percent of the shares (property rights, tangible assets, stocks and intangible assets) of Herz that was already under liquidation.

The buyer, Bonafarm (majority owned by Bonitás 2002) was established in 2009 with the aim of getting controlled by CSIM Pte Ltd and holding together the undertakings interested in the food industry within the Csányi-group. The undertakings belonging to the Bonafarm-group are present at several level of the meat industry (fodder production and stock, pig, cattle and poultry breeding and fattening, pork, beef and poultry processing).

The acquired undertaking, Herz Zrt. was established on 1 April 1994. The history of its activity dates back to 1888; since that time the main product of the factory established by Ármin Herz has always been salami. After the privatisation of the undertaking in 1994, it was acquired by Herz Salami Factory Rt. and Pick Rt., then after the reorganisation of Pick in 2004, it got divested. Until January 2009 when it went bankruptcy, it pursued its activity independently; first of all it produced fully cured salami with a natural coating of mould, solely from acquired raw material. During the last few years, it has gradually lost sales on the foreign markets (especially in Germany, Austria and the Republic of Czech). During the last period, besides the traditional "winter salami", it also produced thick and thin sausages as well as other meat products. Until its liquidation initiated at the end of May 2009, it was owned by Formont Service Providing Kft. (60%), Aventa 96 Service Providing Kft (39,9995%) and Tamás Korányi (0,0005 percent). Since the beginning of its liquidation process, it has been represented by György Pinka, liquidation officer from Mátraholding Economic Consultancy Zrt.

For a concentration of undertakings, the authorisation of the Hungarian Competition Authority has to be sought in cases where the aggregate net turnover of all the groups of undertakings concerned exceeded HUF fifteen billion in the preceding business year, and the net turnover of each of at least two of the groups of undertakings concerned in the preceding business was more than HUF five hundred million. In this case the aggregate net turnover of the undertaking groups interested in the concentration significantly exceeds HUF fifteen billion and there are two undertaking-groups (Csányi-group and Herz Zrt.) whose net turnover in 2008 surpassed the threshold of HUF 500 million determined in the Competition Act. As a consequence, the authorisation of the GVH had to be sought for clearing the concentration.

There is an overlap between the activities of the parties to the concentration concerning the production of dry meat products due to Pick Zrt. that belongs to Bonafarm. Though based on the analysis, the most probable product market is the market of dry products (including both the segment of salami kind of dry products and the one of sausage kind of dry products) in Hungary, the GVH did not deem it necessary to further specify the relevant market for the authorisation of the present concentration, since even by investigating separately the relevant market of dry salami products and dry sausage products, it came to the same conclusion concerning the authorisation. (It could be excluded with high level of certainty that a relevant market wider than the one of dry products would have been affected by the transaction.)

Based on their market shares in 2007 and in 2008, it is evident that the transaction affects Pick and Herz as the first and second market players of the dry product segment involving the salami segment. Competition between the two undertakings seemed a bit more intense within the salami segment than within the larger dry product segment, however, based on market data analysis, competition between the two segments could not be excluded.

For assessing the possible effects of the concentration, it is an important circumstance that production at Herz was stopped in 2008/2009 and it has been suspended since that time. Based on the analysis of several years of prices and quantities of salami and sausage products, the market share of the undertakings concerned and other relevant data, the GVH came to the conclusion that though the position of Pick has strengthened since Herz stopped production, supermarket own brand salami and sausage products and the products of the extant market players mean decent competition against Pick.

The GVH also considered further circumstances that might compensate the detrimental effects of the concentration to competition. As a result of production technologies, the production of dry products needs specific investments (complex smoking and curing equipment with a steam and temperature regulation system, etc.). If an undertaking wants to enter the dry product market, this entails costs and difficulties without any doubts, but these do not mean considerable barriers to entry either in the case of salami or sausage products. As for dry products, the importance of brand names and brand loyalty is relatively big, however this does not constitute a serious problem either owing to the organic restructuring of the market of branded salami in 2008/2009. In the course of this restructuring, smaller producers could significantly raise their market share, while the demand for salami remained the same.

The production at the Pick Salami Factory in Szeged is more efficient than at the factory of Herz in Budapest, and already this condition could decrease the prices of Herz products. According to the statement of Pick, the production of goods with Herz brand name would be performed by the already existing production capacity that is not completely exploited; as a consequence the utilization would get better, the average cost of production and finally the price would decrease. The GVH took into consideration the occurring efficiency benefits as circumstances favouring the concentration.

The applicant argued that without the concentration Herz would go into liquidation any way, and hereby competition with Pick would be ceased. According to the GVH, liquidation problems of an undertaking, the cease or suspension of its production for an unknown period are only necessary but not sufficient conditions for accepting such an argument. The parties to the concentration should also have proven that, besides the concentration proposed, there

were no other alternatives that would have decreased competition in a less intense way, e.g. the most precious instrument affected by the transaction, the exploitation of the exclusive user right to the brand Herz. According to the statement of the liquidation officer, not only Bonafarm submitted a valid bid in reply to the open invitation to tender for the sales of Herz. In theory other market players would have been able to exploit the brand Herz in their businesses. Hereby in the course of its proceeding, the GVH did not find the arguments referring to the failing firm applicable.

According to the Hungarian Competition Act, the GVH may not refuse to grant authorisation for a concentration where the concentration would not significantly reduce competition on the relevant market, in particular as a result of the creation or strengthening of a dominant position. Since based on the above mentioned there are no competition concerns about such an effect, the GVH cleared the concentration.