

**Cargill Incorporated
and
Cerestar SA**

A report on the merger



COMPETITION COMMISSION

Cargill Incorporated and Cerestar SA

A report on the merger

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
May 2002**

Members of the Competition Commission as at 9 May 2002


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¹These members formed the Group which was responsible for this report under the chairmanship of Mr P Mackay.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests.

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Part I

Summary and Conclusions

1 Summary

1.1. On 19 February 2002, the Secretary of State referred to this Commission for investigation and report the acquisition of Cerestar SA (Cerestar), then part of the Montedison Group of Italy (Montedison), by Cargill Incorporated (Cargill), a US company, active internationally. Both companies produce glucose syrups and blends, among other products, at plants in the UK and Continental Europe. We were asked to report by 9 May 2002. The terms of reference appear at Appendix 1.1.

1.2. The agreement between Cargill and Montedison for the acquisition of Cerestar was conditional on clearance both by the EC and US competition authorities, but not by those in the UK. The proposed acquisition was notified to the European Commission on 27 November 2001 as a proposed concentration within the meaning of the European Community Merger Regulation (ECMR). The European Commission carried out an investigation and cleared the transaction on 18 January 2002, except as regards the supply of glucose syrups and blends in the UK. Following a request by the UK Government, on 21 January 2002 the European Commission referred to the competent UK competition authorities that part of the proposed acquisition which related to the supply of glucose syrups and blends in the UK. During our investigation, on 2 April 2002, US clearance for the acquisition was obtained. On 4 April, Cargill acquired control of Cerestar by purchasing Montedison's majority stake of 56 per cent.

1.3. Cargill is a US company which operates internationally as a marketer, processor and distributor of agricultural, food, financial and industrial products and services. In Europe, its activities include the production of starch and sweeteners at two plants located respectively at Bergen-op-Zoom in the Netherlands and Tilbury in the UK. Cargill supplies these products to customers throughout the EC. Cerestar was until recently part of a French agro-food group, Eridania Béghin-Say (EBS), ultimately owned by Montedison of Italy. EBS was demerged in July 2001. Cerestar produces a range of starch and sweetener products. It has seven plants in the EC producing glucose syrups and blends, including one in Manchester.

1.4. Glucose syrup and blends (the reference products) are starch-based sweeteners, produced from agricultural commodities containing carbohydrates of which the most commonly used are wheat and maize. In the manufacturing process, the raw material selected is milled to produce starch slurry. This can be treated to produce a range of starch products, or can be subjected to hydrolysis and subsequent processing to produce a variety of downstream sweetener products, the degree of sweetness depending on the degree of hydrolysis applied. As well as glucose syrups, these downstream products include maltodextrins, crystalline glucose, fructose and various polyols such as sorbitol. By combining glucose syrups with other natural sweeteners such as fructose it is possible to produce different glucose blends which replicate to a greater or lesser extent the sweetness of sugar.

1.5. Glucose syrups and blends are intermediate products, used in a variety of food applications, principally confectionery, soft drinks, beer and cider, preserves, dairy and bakery. They are also used as fermentation agents. Purchasers of the reference products are predominantly large companies in the food, drink and pharmaceutical industries, many of them part of multinational groups. UK demand for the reference products in 2000 was [] kilotonnes, which represented some 20 per cent of total EC demand for the products in that year of [] kilotonnes.

There are substantial and growing imports and exports of the reference products. In 2001, imports of standard value glucose syrups and blends represented about 17 per cent of UK sales, while exports represented about 13 per cent of UK production.

1.6. As well as Cargill and Cerestar, three other companies produce the reference products in the UK. Amylum Europe NV (Amylum), a subsidiary of Tate & Lyle PLC (Tate & Lyle), has a plant at Greenwich. It has also recently invested in a new plant in north-west France. Roquette UK Limited (Roquette) is part of a privately-owned French company, Roquette Frères, with six milling plants in the EC, including a large factory near Lille in France. Roquette started importing the reference products to UK customers in the 1980s. In 2000, it purchased the former ABR (part of Associated British Foods) plant at Corby in the UK, which it is currently expanding. W M Grants (Grants), a much smaller player, is a Scotch whisky producer which manufactures glucose syrups from wheat. Two other companies, without UK manufacturing facilities, Syral SA (Syral), a French company, and The Pfeifer & Langen Corporation (Pfeifer & Langen), produce glucose syrups and blends at plants on the Continent and have begun to import product into the UK.

1.7. In considering within what boundaries any competitive constraints on the merged company might be expected to operate, we needed to establish the geographic scope of the market for glucose syrups and blends. We found that trade in glucose syrups and blends between the UK and Continental Europe has been growing throughout the past decade and that this has not been brought about solely by exchange rate factors. While there is significant EC-wide trade in the reference products, there may be some limits to the extent to which all producers of the reference products are fully competitive throughout the EC, given the large distances from their plants to the peripheries of the region. To the extent that large Continental plants enjoy greater economies of scale than their UK counterparts, it is reasonable to take these into account in assessing the distances over which they can profitably supply distant customers. Imported deliveries need not pose insuperable problems for customers in terms of reliability and predictability of supply. Price trends in the UK broadly track those in Continental Europe, suggesting that UK producers cannot set prices independently of price levels on the Continent. All these factors lead us to the view that competitor production plants located in the UK, and large plants within northern France and the Benelux region, may be expected to exert direct competitive pressure on the merged entity within the UK. We therefore conclude that the relevant market for glucose syrups and blends is wider than the UK and extends at least to that part of Continental Europe that includes northern France and the Benelux countries.

1.8. Before the merger, there were four major producers of the reference products at both the UK and EC-wide levels. In 2001, Cargill had about 21 per cent and Cerestar 28 per cent of UK production and sales, while Amylum had 27 per cent and Roquette 19 per cent. Following the merger, the pro-forma market share of the merged entity would be 48.1 per cent of UK production and 38 per cent of the EC-wide production of glucose syrups and blends. We considered to what extent the reference market had been competitive before the merger. We found that producer market shares had been fluctuating since at least the mid-1990s, prices had been steadily falling, EC-wide capacity was expanding, demand for the reference products was growing and trade between the UK and Continental Europe was increasing. All these matters support our view that the market was competitive before the merger.

1.9. The merged entity has two strong competitors, Amylum and Roquette, both with UK plants, and Continental plants located close to the Channel, and with the ability to expand capacity in the reference products. Given the presence of these competitors, we are satisfied that unilateral action by the merged entity, either to raise prices directly in the UK or by way of capacity reduction, would not succeed.

1.10. In considering the scope for coordinated action by the major producers of the reference products, we note that the merger would bring about increased concentration in the market for the supply of glucose syrups and blends. Moreover, the three strongest players in the UK,

namely the merged entity, Amylum and Roquette, are the same companies that have plants in Continental Europe and which dominate sales of the reference product in the EC as a whole. Moreover, the location of Syral in north-eastern France makes it more costly to service customers in the UK for that company than for its competitors located nearer the Channel and hence limits its ability to act as a direct constraint on those competitors. We note, however, that the production of glucose syrups and blends is characterized by high fixed and raw materials costs and that high capacity utilization rates increase profitability. This makes coordinated behaviour to restrict production a risky strategy. The reference products are purchased following individual negotiation between producer and customer, and prices are therefore not transparent. This would make it more difficult for coordinated action to succeed in bringing about price rises. While new entry to the market would be costly, we note that demand for the reference products is growing throughout the EC. Moreover, customers are large and powerful buyers and would be capable of switching to a new entrant or even sponsoring new entry if they were in danger of becoming too dependent on their existing suppliers. Finally, although Syral and Pfeifer & Langen would be unlikely to impose a direct constraint on the other players, we believe that they would exert an important indirect constraint by ensuring that their main competitors could not produce artificial capacity shortages in the long run. We conclude, therefore, that coordinated action, too, would be unlikely to succeed.

1.11. We conclude that the merger may be expected not to operate against the public interest.