LINERGY/ULSTER FARM BY-PRODUCTS MERGER INQUIRY

Summary of hearing with W D Meats on 2 September 2015

Background

1. W D Meats (WD) was a beef slaughter, deboning and processing plant based in Northern Ireland. It had previously slaughtered sheep but no longer did so. Its beef was classified as British and was predominantly sold into British markets. WD said that its main competitors in Northern Ireland were companies such as Linden Foods, Dunbia and ABP. WD had an European Economic Community (EEC) approved plant with 380 employees and typically supplied companies such as [●].

2. The contracts it had with some customers involved packaging the meat products for retail. In other cases, the WD’s products were sent to customers via packaging companies.

Rendering

3. WD said that when choosing a renderer there are several aspects to consider. The most important factor was whether the render was able to handle different categories of material. This meant that a total package price could be negotiated.

4. There were seven beef processing plants in Northern Ireland and roughly 420,000 cattle from about 25,000 suppliers. All seven companies were competing hard for that supply.

5. WD said that the companies involved in the red meat slaughtering business in Northern Ireland could be split into groups: big groups who had several plants around the country and independent companies with one or two plants. The big groups had been growing whereas the independents had been disappearing one by one.

6. The vast majority of rendering facilities in Great Britain were owned by independent rendering operations who were not involved in the slaughter of cattle. In contrast, 79% of cattle slaughtered in Northern Ireland were slaughtered by plants that had ownership relations with rendering facilities. In the Republic of Ireland 52% of the cattle slaughtered are slaughtered by plants that have its own rendering facilities. WD said that the big meat groups
had larger market shares in Ireland, in comparison to GB (as well as a
significant share of the British red meat business). It said that the extent of
vertical integration seemed to increase as the independent meat producers
disappeared and the degree of concentration in the market increased.

7. [\[\]

8. WD stated the only independent rendering plant had been Ulster Farm By-
Products (UFBP). There was previously another renderer called Lisburn
Proteins but UFBP bought it out.

9. WD understood that a lot of Category 1 material would be reclassified to
Category 3 material in 2018, if Great Britain and Northern Ireland were to
achieve negligible risk status. However there is no guarantee that this would
happen: should a case of Bovine Spongiform Encephalopathy (BSE) arise
then reclassification would not happen. Even if negligible risk status were to
be achieved but then a BSE case arose, the negligible risk status would be
lost.

10. It stated that, irrespective of whether this reclassification takes place, there
must be at least two Category 1 plants in Northern Ireland as an absolute
minimum. This was because there will be ongoing demand for rendering of
Category 1 material.

11. In 2014, WD had [\[\].

12. [\[]

13. WD said that, in hindsight, it felt the decision made by UFBP to close its
Category 1 plant was made with knowledge of the proposed merger in mind
and that, absent the proposed merger between Linergy and UFBP, the
Category 1 plant would have remained open. It said that there was enough
volume for the UFBP Category 1 plant to have remained open. WD said that,
if there was an independent Category 1 renderer in NI, ABP (which had 25%
of the slaughter business in NI) may be more likely to use the services of that
renderer than to pay to transport its material across longer distances to the
Republic of Ireland.

The Merger

14. Initially WD was approached by Sapi SPA (Sapi) and was advised that Sapi
would be buying UFBP. Under the impression that it would operate as an
independent renderer, WD was happy to do business with UFBP owned by
Sapi.
WD was informed of the merger by Sapi the day before the merger was announced via the press. It was told that Sapi would own 30% of the merged entity and Linergy would own the remaining 70%. It understood that the deal agreed between Linergy and Sapi meant that Linergy would need to have Sapi’s approval prior to making any material business decisions.

WD had two series’ of discussions with Sapi. The first took place after the initial merger plan between Linergy and UFBP was abandoned in 2012. [\textless \textgreater]

The second conversation took place in late 2014. [\textless \textgreater]

WD went on to say that the ideal solution would be for an independent renderer to own UFBP, running both Category 1 and Category 3 lines.

WD said that getting access to volume for a new independent renderer would not be an issue as there is, WD, two ABP plants, Linden and Dunbia that could potentially provide volume. It also added that there are chicken slaughterers, with 1.9 million chickens being slaughtered in NI weekly. Additionally, WD mentioned Karro Foods, which slaughters 20,000 pigs a week. These parties would also require access to both Category 1 and Category 3 rendering services.

WD highlighted that Linergy was created by Fane Valley, the Linden Group and Dunbia. [\textless \textgreater]

**Transport and costs**

WD explained the difficulties it would have [\textless \textgreater].
30. [X]. WD was led to believe that rendering revenues were related to the oil price such that if the price of oil came down, tallow would be less valuable.

31. Prior to Sapi taking over UFBP, WD received a per-truck volume discount if the material supplied was [X].

**Entry and expansion**

32. [X]

33. [X]

34. WD said that that there had previously been another Category 3 plant in NI which had been closed after being acquired [X].

35. WD was unsure as to how straightforward it would be for the UFBP Category 1 line to be reopened. It said that UFBP could, perhaps, recommission this at a relatively modest cost, in comparison to a new entrant, which would have to purchase new land and plant. This assumed that the existing plant was in a state where it could be brought back into a serviceable condition.