THE MONOPOLIES AND MERGERS COMMISSION

# S & W Berisford Limited and British Sugar Corporation Limited

## A Report on the Proposed Merger

*Presented to Parliament in pursuance of Section 83 of the Fair Trading Act 1973*

*Ordered by* The House of Commons *to be printed*
*25 March 1981*

*LONDON*
HER MAJESTY'S STATIONERY OFFICE

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ISBN 0 10 224181 3

## Members of the Monopolies and Mergers Commission

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Mr J Gill (*Secretary*)

* These members formed the group which was responsible for this inquiry (see paragraph 1.2).

## Note by the Department of Trade

In accordance with section 83(3) of the Fair Trading Act 1973, the Secretary of State for Trade 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. Accordingly certain figures in the text and in two of the appendices have been omitted. The omissions are indicated by a note in square brackets.

No omissions have been made from Chapter 9, Conclusions.

# Contents

CHAPTER 1

# Introduction

1.1. On 4 June 1980 the Department of Trade sent to the Commission the following reference:

> Whereas it appears to the Secretary of State that it is or may be the fact that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation (as defined in section 64(8) of the Fair Trading Act 1973) in that:
>
> (*a*) enterprises carried on by or under the control of British Sugar Corporation Limited (a body incorporated in the United Kingdom) will cease to be distinct from enterprises carried on by or under the control of S & W Berisford Limited; and
>
> (*b*) the value of the assets which will be taken over will exceed £15 million.
>
> Now, therefore, the Secretary of State in exercise of his powers under sections 69(2) and 75 of the said Act hereby refers the matter to the Monopolies and Mergers Commission for investigation and report within a period of six months beginning with the date of this reference.[1]
>
> In relation to the question whether a merger situation qualifying for investigation will be created if the arrangements herein referred to are carried into effect the Commission shall exclude from consideration section 64(1)(*a*) of the said Act.
>
> (*Signed*) J A COOKE
>
> 4 June 1980 — *An Assistant Secretary of the Department of Trade*

1.2. On 10 June 1980 the Chairman of the Commission, acting under section 4 of the Fair Trading Act 1973 and paragraph 10 of Schedule 3 thereto, directed that the functions of the Commission in relation to this reference should be discharged through a group consisting of six members of the Commission, including himself as Chairman. The composition of the group is indicated in the list of members of the Commission which prefaces this report.

[1] On 24 November 1980 the Secretary of State announced that he was satisfied that there were special reasons why our report could not be made within the time specified in the original reference. Accordingly, he decided to allow a further period to 3 March 1981 for the making of this report.

1.3. Notices inviting evidence were inserted in:

| | |
|---|---|
| *The Times* | *Financial Times* |
| *Daily Telegraph* | *The Guardian* |
| *The Grocer* | *The Food Trade Review* |
| *Confectionery Production* | *The Confectioner, Tobacconist, Newsagent* |
| *Food Manufacture* | *Farmer's Weekly* |

We received a considerable amount of written evidence from S & W Berisford Ltd and the British Sugar Corporation Ltd. In addition we sought evidence from the Ministry of Agriculture, Fisheries and Food, the Treasury, the Confederation of British Industry, the Trades Union Congress, sugar merchants, sugar brokers, several trade associations representing sugar customers (both industrial users of sugar and retailers) and a number of individual sugar users and retail groups. We also conducted a survey of a sample of the British Sugar Corporation's customers of various sizes. Twelve hearings were held, including three with S & W Berisford Ltd and three with the British Sugar Corporation Ltd. One hearing was held with each of the following:

(*a*) The National Farmers' Union;

(*b*) Tate & Lyle Ltd;

(*c*) the joint representatives of four sugar merchants (Napier Brown & Company Ltd, Edward Billington (Sugar) Ltd, A S Pigott & Son Ltd and John Thomas (Sugar Merchants) Ltd);

(*d*) the joint representatives of three trade associations (The Cake and Biscuit Alliance, the Cocoa, Chocolate and Confectionery Alliance, and the Food Manufacturers' Federation Inc);

(*e*) E D & F Man Limited (commodity brokers); and

(*f*) Comfin (Commodity & Finance) Company Ltd (commodity brokers).

We also visited the British Sugar Corporation's factory at Bury St Edmunds.

1.4. Some of the evidence submitted to us was of a confidential nature and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

1.5. We thank all those who have helped us in our inquiry, particularly the two companies principally concerned.

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*Note* On 16 February 1981, after the signing of our report, the British Sugar Corporation announced the closure of four of its seventeen factories. The Commission were made aware of the possibility of such closures during the course of the inquiry, but in view of the sensitivity of this evidence, which did not affect our conclusions, it was omitted from the report.

CHAPTER 2

# The United Kingdom sugar market

### Introduction

2.1. United Kingdom sugar consumption amounts to some 2·3 million tonnes per annum, of which almost one-half is sugar produced from beet grown in this country. This consumption compares with an EEC figure of 9·5 million tonnes and a level of world consumption of approximately 90 million tonnes. Most sugar is consumed within the country of production although international trade in sugar amounts to approximately 25 million tonnes per annum. Just over 25 per cent of this trade is carried out under long-term intergovernmental agreements at special fixed prices. The majority, however, is traded on the world market at the freely fluctuating world market price. (Although there are long-term commercial supply arrangements involving some 5 million tonnes, these are all priced at, or in relation to, world prices.) As explained in later sections, United Kingdom sugar prices bear no relation to the fluctuating world price because of the effect of the EEC sugar regime.

### History and development of the United Kingdom sugar beet industry

2.2. Although in the 17th and 18th centuries the West Indian islands provided the bulk of the United Kingdom's sugar, the period from the abolition of slavery in 1833 to the outbreak of World War I saw a considerable change in the sources of United Kingdom supplies in favour of continental beet sugar. Indeed, by 1913 continental beet sugar accounted for nearly 80 per cent of United Kingdom supplies, and just over half our sugar needs were imported from Germany and Austria.

2.3. Various attempts had been made to establish beet factories in East Anglia in the 19th century without success and the first modern beet sugar factory built in the United Kingdom at Cantley in 1912 closed down by 1916. The 1914–18 war necessitated a revival of trade in cane sugar, and the disruption to food supplies caused by the war resulted in the Selborne Committee recommending the establishment of a domestic beet sugar industry as a national security measure. Official loans and public subscriptions were used to buy land to be devoted to beet growing and to erect a factory at Kelham. It began to operate in 1921, a year after the Cantley factory resumed its operations.

2.4. Financial difficulties necessitated continual Government support for the infant industry. Between 1922 and 1925 such support took the form of a high rate of customs duty imposed on foreign sugars (and the remission of excise duty on the home-grown sugar). In 1925, customs duty was cut by nearly 55 per cent, putting the existing plants in peril, and the Government decided to subsidise the domestic industry for ten years with the level of support declining progressively over the period as the new industry gained experience.

2.5. Beet sugar production increased rapidly from 24,000 tons in 1924 to 192,000 tons in 1928, by which time all the factories now in operation had been built. By the early 1930s production of over 400,000 tons had been achieved. In 1928 the import duty on sugar of less than 98 per cent polarity was reduced (the duty on white sugar being maintained) to alleviate the competitive pressure that had been exerted on United Kingdom cane refiners by continental beet processors exporting refined sugar to this country. The cane refiners, in return, agreed to limit their refining margins and to submit proposed price increases to the Treasury for approval. Imports of refined white sugar declined but, as the depression reduced the world price of raw sugar to levels below the cost of production, the cane refiners were able to compete more vigorously with the domestic beet sugar producers. In 1933 the Ministry of Agriculture induced the refiners to enter into an agreement with the beet processors. This allocated to the United Kingdom beet factories a quota of 500,000 tons, in relation to a total consumption of 1·9 million tons.

2.6. The need for subsidies and market sharing arrangements indicated that a domestic beet industry could not be viable in the face of uninhibited competition from cane refiners importing raw sugar from the Empire and therefore at reduced tariffs. With the ten year period of subsidy due to end, the Greene Committee was appointed to determine the future of the industry. In 1935 the Committee advised that assistance to the beet industry should be abolished, but the Government adopted a minority recommendation that assistance should continue without time limit. Under the Sugar Industry (Reorganisation) Act 1936 the 18 beet factories (including four in which Tate & Lyle had a majority interest) were amalgamated to form the British Sugar Corporation Limited (British Sugar) and financial assistance was given to the growers for the production of the equivalent of 560,000 tons of white sugar per annum. An outstanding Treasury loan was converted into a 15 per cent shareholding. The 1933 agreement between cane refiners and beet processors continued and, to promote British Sugar's efficiency in such sheltered circumstances, an Incentive Agreement was drawn up.

2.7. With the advent of World War II the sugar industry and its market were subjected to administrative control. Overseas purchases were made by the Ministry of Food, and a policy of drawing up long-term contracts with Commonwealth suppliers evolved. At home, to reduce transport costs, plants were limited to supplying sugar in their neighbourhood, thus effectively regionalising the sugar market. The long-term agreements with Commonwealth suppliers continued after the war and became formally established under the 1951 Commonwealth Sugar Agreement. The Agreement provided for the supply of specified quantities of raw cane sugar at negotiated prices. This revived the sugar industries of the Commonwealth and enabled the United Kingdom to secure supplies from within the sterling area. The existence of the Agreement also led to a Government limitation on the beet acreage for which British Sugar might contract and to the stipulation that only the production from that acreage would be eligible for price support.

2.8. The Sugar Act of 1956 replaced the system of war-time controls and established the Sugar Board to regulate the United Kingdom industry. The main features of the system were as follows:

(*a*) Ministers controlled the acreage of beet grown and set a guaranteed price for sugar beet.

(*b*) A market sharing agreement (formalised in the Sugar Refining Agreements (Approval) Order 1957) required British Sugar to charge an identical ex-factory price to that of the cane sugar refiners and to continue the zoning arrangements of World War II. In addition British Sugar placed a voluntary limitation of 640,000 tons on the amount of refined sugar it would produce, and any surplus beet raws were sold to the cane refiners and marketed within their zones. The Sugar Board paid British Sugar the difference between the market price of refined sugar and the guaranteed price of beets, plus a manufacturing margin commensurate with efficient operations; the Corporation was encouraged to improve efficiency by the payments made under the Incentive Agreement.

(*c*) The Sugar Board purchased the raw sugar contracted for under the CSA at the negotiated prices and re-sold it at world prices to the United Kingdom refiners, who then arranged the shipment of the cane raws for refining in the United Kingdom. In return for the Government's protection against the import of white sugar (which remained the subject of heavy customs duties), the refiners reached an agreement with the Government which gave them a margin consistent with efficient production.

(*d*) The Sugar Board financed the cost of paying the guaranteed prices for cane and beet sugar by charging a levy (included in the ex-factory price) on sugar sold for domestic consumption. At times when world prices were above guaranteed prices the Sugar Board made distribution payments in respect of sugar for domestic consumption.

2.9. Thus the 1956 sugar regime placed British Sugar and the cane refiners under very close control. Volumes, prices, profit margins and even areas of marketing operations were all controlled by the Government with the United Kingdom consumer providing the necessary funds to finance the guaranteed raw sugar prices. However, the regime offered some flexibility to cane refiners in that they traded in cane raws at world prices and the system provided the sugar backing that was necessary for the revival of the London Terminal Market.

2.10. The regime provided a reasonably balanced market for sugar. The table below compares the contributions made to domestic sugar consumption by beet, CSA raws and Commonwealth 'frees'; ie Commonwealth sugar bought at the London Daily Price (plus a small Commonwealth duty).

TABLE 2.1 *'000 tonnes WSE*

| | *1956–57* | *1966–67* | *1970–71* | *1971–72* | *1972–73* |
|---|---|---|---|---|---|
| Demand | 2,639 | 2,645 | 2,662 | 2,642 | 2,648 |
| UK beet | 698 | 861 | 906 | 1,086 | 886 |
| CSA cane imported under contract | 1,514 | 1,625 | 1,660 | 1,657 | 1,655 |
| Commonwealth 'frees' | 1,091 | 480 | 281 | 342 | 360 |

*Source:* Calculated from data based on the following:
*Annual Review of Agriculture.*
*Annual Report of the Sugar Board.*
*Monthly Digest of Statistics.*

**Summary of the CAP sugar regime**

(*The CAP sugar regime is described in more detail in Appendix 2.*)

2.11. On accession to the EEC, the United Kingdom sugar market became subject to the CAP sugar regime. Under the current regime the Council of Ministers allocates production quotas to each member state, in order to control the quantity of sugar grown and processed in the Community that is entitled to guaranteed prices. With the exception of the French Départements d'Outre Mer[1] (DOMs), where cane sugar is produced, quotas apply to beet sugar production. The basic or 'A' quota is the quantity of sugar which can benefit in full from the Community's price guarantees, without being subject to any levy. Since 1975–76 the United Kingdom's 'A' quota has been set at 1·04 million tonnes WSE per annum. In addition member states are allotted a 'B' quota, which under the current regime is determined annually as a fraction of the 'A' quota (in 1979–80 it was 27·5 per cent), and together they form the maximum quota; that is the maximum amount of sugar that may benefit from Community price support, whether consumed within the Community or exported to the world market. Sugar that is produced in excess of the maximum quota (known as 'C' sugar) is not eligible for price support and must be exported outside the Community without receiving any export subsidy or paying any export levy (as the case may be). As the sole United Kingdom beet sugar producer, British Sugar is allocated the entire United Kingdom quota.

2.12. The minimum price guaranteed to the producer for sugar produced within the maximum quota is known as the intervention price. Producers may sell surplus quota sugar to the Intervention Agencies of the Community at the intervention price. However, in order to avoid the storage costs of holding large stocks of sugar, the CAP sugar regime encourages the export of surplus quota sugar. Thus when world market prices are below EEC intervention prices exports of surplus quota sugar are subsidised, and when world market prices are above EEC intervention prices levies are imposed. The Commission wholly or partly finances this scheme by charging a production levy on 'B' quota sugar. The levy, which is set annually, is divided between processors and farmers in the ratio of 40:60; it is currently limited to a maximum of 30 per cent of the intervention price. When this is insufficient the shortfall is made up by FEOGA.[2]

2.13. The beet farmer in each country is guaranteed a minimum price for sugar beets based on the intervention price. To encourage self-sufficiency deficit countries such as the United Kingdom, where sugar consumption exceeds beet sugar production, have a higher guaranteed beet price and a commensurately higher intervention price than the other member states.

2.14. Prices and amounts under the CAP are set in European Currency Units (ECUs) and are converted into national currencies at special rates of exchange known as representative or 'green' rates. These rates are set by the

[1] Former French colonies which are part of Metropolitan France.

[2] Fonds Européen d'Orientation et de Garantie Agricole or European Agricultural Guidance and Guarantee Fund.

EEC Council of Ministers and, in order to give an appropriate degree of stability to farm support prices in each member state, they are not automatically changed in line with fluctuations in the market rate of the currency concerned against the ECU.

2.15. If significant differences arise between a member state's green rate and its market rate, Monetary Compensatory Amounts (MCAs) have to be introduced on that member state's trade in the main agricultural products including sugar. The MCAs act as subsidies on its imports and levies on its exports if the market exchange rate of that member state's currency falls relative to its green rate (and vice versa if its market rate rises relative to its green rate). Without MCAs, distortions would occur through produce being artificially attracted into a member state whose market exchange rate had appreciated relative to its green rate, and which was accordingly operating support prices higher than those in force elsewhere in the Community.

2.16 The export provisions for quota sugar also act to protect consumers from the high prices that occasionally occur in the world market, since a levy is charged on exports when world prices exceed those in the EEC. The levy may vary daily to take account of any fluctuations in world prices and its effect is to make the EEC market at least as attractive to the processor as the world market and to prevent the rise in domestic prices which would otherwise occur. In return the processor is protected from import competition during periods when world prices are below the threshold price, by an import levy on non-preferential imports. Thus the CAP regime insulates both producers and consumers in the Community from the price fluctuations of the world market.

2.17. As a result of the United Kingdom's entry into the EEC, the Commonwealth Sugar Agreement was not renewed in 1974. However, as part of the terms of the United Kingdom's entry into the EEC, guarantees were sought to ensure that a reasonable level of United Kingdom cane refining capacity would remain after entry and that those developing countries whose economies depended on sugar cane exports had right of access to the Community market on reasonable terms. Those terms are set out in the sugar protocol of the Lomé Convention, signed in February 1975. With the single exception of Australia which did not obtain a quota, members of the Commonwealth Sugar Agreement and also certain former colonies of other member states were granted quotas which in total amounted to 1,304,700 tonnes WSE. The agreement was not simply a right of access but guaranteed suppliers that, if the option on the quotas was not taken up by European cane refiners, the sugar would be accepted by the Community's Intervention Authorities at the intervention price. To date, the ACP countries have not resorted to the use of this facility. If, for reasons other than *force majeure*, a supplier did not offer his full quota in any year then that quota would be commensurately reduced in ensuing years. At the Commission's discretion unfilled shares of the quota may be reallocated to other signatories.

**The effect on the United Kingdom cane refining industry**

2.18. The guaranteed prices for preferential cane sugar (raw and refined) are agreed annually by the ACP countries and the EEC. The prices fall within the price range obtaining in the Community and, in effect, for raw sugar the guaranteed price is the raw sugar intervention price for the Community's surplus areas. This beet raw intervention price is essentially a theoretical price, since virtually all beet processing operations in the EEC do not stop at the intermediate raw sugar stage, but produce white sugar only. Thus, if the beet raw price is high it has little effect on the beet processor but for Tate & Lyle it forms the basis of its raw material costs.

2.19. The United Kingdom beet industry became subject to the CAP regime upon accession in February 1973, however an arrangement was reached with the Community whereby the Sugar Board and the United Kingdom cane refiners could continue their operations under the Commonwealth Sugar Agreement until February 1975. Unfortunately, this period coincided with the worst worldwide sugar shortage for 20 years. In spite of two increases in the CSA negotiated price in 1974 (to a level of £140 per ton by September), the greater attraction of higher prices on world markets (which peaked at £650 per ton in November 1974) resulted in a shortfall in CSA quota deliveries of over 300,000 tons of raw sugar in that year. In order to secure supplies, the United Kingdom Government guaranteed ACP countries a special price of £260 per ton for sugar shipped in 1975. It was against this background that Tate & Lyle negotiated with ACP countries for the quotas of sugar agreed at the Lomé Convention in February 1975. The immediate outcome was that the guaranteed price was honoured but, since the United Kingdom market could not sustain such a price in the face of competition from continental sugar, a subsidy was paid to United Kingdom cane refiners by the Exchequer to enable them to pay the £260 per ton price. The longer term outcome of the negotiations was that Tate & Lyle agreed to pay suppliers a loyalty premium (equivalent to approximately £2 per tonne) and a market premium (linked to the realised selling price of the main sugar products), in addition to the guaranteed price set by the Community. The contracts were agreed for a five-year period with a possible two-year extension. In most cases the two-year extension has been agreed so that the renegotiation of most of the contracts with ACP countries will take place in 1982.

2.20. The total ACP quota into the EEC represented a reduction of approximately 340,000 tonnes (raw value), or 20 per cent, from the level of quotas the United Kingdom cane refiners had been accustomed to under the CSA. Because of this and the shortage of sugar prevailing at the time within the EEC, Tate & Lyle (also acting for Manbré & Garton) felt it prudent to secure through contracts a large portion of the ACP supply—1·225 million tonnes WSE. The reduced supply of cane raws, coupled with the expressed intention of British Sugar to add white ends to their existing beet raw factories, inevitably resulted in excess refining capacity in the United Kingdom, but Tate & Lyle and Manbré & Garton could not agree on a rationalisation programme. In 1976 the impasse was broken by Tate & Lyle acquiring Manbré & Garton and in 1977, following discussions with MAFF, Tate & Lyle published its rationalisation plan. This forecast a need for 1·4 million tonnes of cane refining capacity by 1980 and phased the closure of plants over the three-year period. However, the plan was overtaken by a number of factors. These included the virtual disappearance of in-transit refined exports (for which 200,000 tonnes capacity had been provided) owing to large EEC white sugar surpluses; the growth in United Kingdom beet production which, although planned, had not seemed likely in the light of three successive bad beet crops; a certain resilience on the part of continental imports into the United Kingdom; and the fact that sugar consumption was slightly lower than previously forecast. Thus the problem of excess capacity remained and Tate & Lyle has recently announced proposals for closing its Liverpool refinery.

**The emergence of British Sugar as a national beet sugar producer**

2.21. The reduced quotas for cane sugar presented the United Kingdom beet industry with the opportunity to expand. The maximum beet quotas assigned to the United Kingdom in 1973–74 had been set at 900,000 tonnes WSE—a level consistent with past performance. The repercussions of the world sugar shortage prompted the European Commission to revise the quotas substantially in all member states (except Italy) and, for the year 1975–76, the United Kingdom maximum quota was raised to 1,508,000 tonnes—a level far in excess of past production. In order to encourage farmers and processors to increase beet sugar production the guaranteed prices paid on quota sugar were raised by 15 per cent.

2.22. British Sugar was encouraged in plans for expansion by the publication of a White Paper in 1975 entitled 'Food from our own Resources' which stated (*inter alia*) that 'the first task is to raise the acreage sufficiently to produce 1,040,000 tonnes of sugar (the 'A' quota), thereafter it should aim for a production of some 1·3 million tonnes'. This aim was supported in a second White Paper in 1979, 'Farming and the Nation'. British Sugar was further assisted in its plans for expansion by the termination of the marketing agreement which had hitherto effectively zoned the United Kingdom into cane and beet areas and had required British Sugar to charge the same ex-works prices as Tate & Lyle. To take advantage of its opportunities British Sugar instituted a programme of expansion on three fronts:

(*a*) to expand both beet slicing and white sugar processing capacity in order to handle a target output of 1·25 million tonnes of white sugar per annum;

(*b*) to persuade United Kingdom farmers to increase the beet growing area and achieve better yields per acre; and

(*c*) to encourage retail and industrial buyers outside British Sugar's traditional marketing area to buy its sugar.

2.23. The company's target of 1·25 million tonnes was set with two important factors in mind. Firstly, British Sugar decided that it should concentrate its activities on supplying sugar to 50 per cent of the United Kingdom market.

Secondly, although maximum quotas permitted production in excess of 1·3 million tonnes, British Sugar accepted a target of 1·25 million tonnes in order to allow a margin of quota sugar in high yield years. The table below shows how capacity has been increased over the period.

TABLE 2.2 **Capacity (tonnes of beet sliced per day)**

| | *Tonnes* | *Index* |
|---|---|---|
| 1972–73 | 59,850 | 100·0 |
| 1973–74 | 65,050 | 108·7 |
| 1974–75 | 63,950 | 106·9 |
| 1975–76 | 66,150 | 110·5 |
| 1976–77 | 67,350 | 112·5 |
| 1977–78 | 70,775 | 118·3 |
| 1978–79 | 73,000 | 122·0 |
| 1979–80 | 76,575 | 127·9 |
| 1980–81 | 80,000 | 133·7 |

*Source:* British Sugar Corporation.

2.24. British Sugar estimated that a 20 per cent increase in the area under beet (ie to 237,000 hectares) would enable it to achieve its target production if improved extraction rates in the factories were achieved. A detailed survey carried out by the company indicated that the required area could be achieved within the established beet growing regions and without a relaxation of the strict rotational constraint judged by farmers to be necessary, ie that sugar should be grown no more than every third year. In order to persuade farmers to increase the area under sugar beet in the face of other competing crops, the company offered a higher beet price than the guaranteed price. Subsequent to the contract negotiations British Sugar undertook to pay the growers' share of the 'B' quota levy and to take the risk on green pound devaluations. British Sugar's efforts to expand acreage were, according to the company, hindered by the over-valuation of the green pound. During the period the green pound was over-valued by up to 55 per cent so that the EEC minimum beet price (and consequently the sugar price) was significantly lower than in some EEC countries. In contrast, imported sugar received the benefit of EEC MCA payments. In spite of this factor and in spite of disease and drought which seriously damaged the crop, consequently affecting the relative profitability of beet in the period 1974–76, beet area has increased as the table below illustrates:

TABLE 2.3

| *Year* | *Hectares contracted* | *Hectares cropped* | *Tonnage of beet cropped* | *Sugar production '000 tonnes WSE* |
|---|---|---|---|---|
| 1972–73 | 179,247 | 179,121 | 6,215,846 | 886 |
| 1973–74 | 189,224 | 188,699 | 7,426,939 | 963 |
| 1974–75 | 196,059 | 182,438 | 4,187,650 | 568 |
| 1975–76 | 197,515 | 193,336 | 4,863,957 | 641 |
| 1976–77 | 206,959 | 200,809 | 6,325,081 | 695 |
| 1977–78 | 205,967 | 200,440 | 6,381,992 | 950 |
| 1978–79 | 209,224 | 203,967 | 7,080,861 | 1,022 |
| 1979–80 | 217,263 | 213,509 | 7,658,875 | 1,154 |
| 1980–81 | 215,216 | | | |

*Source:* British Sugar Corporation.

2.25 On the sales front British Sugar decided to adopt a national marketing policy and embarked on an advertising campaign to acquaint consumers outside its traditional sales area with its brand name 'Silver Spoon'. To become a credible supplier of the volumes involved in achieving a 50 per cent share of the United Kingdom market, British Sugar had to overcome the problem of meeting demand in poor crop years. Consequently in some years British Sugar has been required to purchase large quantities of refined sugar from Tate & Lyle. In 1979–80 the company purchased 20,000 tonnes of white sugar from the continent because Tate & Lyle was unwilling to make a firm offer for more than 80,000 tonnes in that particular year. Table 2.4 below compares British Sugar's sales commitments with the sources of those sales:

TABLE 2.4 **Reconciliation of British Sugar's production and deliveries**

*'000 tonnes*

| *Year* | *British Sugar's production* | *White sugar deliveries* | *Exports* | *Net purchases from Tate & Lyle* | *Other purchases* |
|---|---|---|---|---|---|
| 1972–73 | 709 | 727 | 45 | 23 | — |
| 1973–74 | 963 | 773 | 56 | (168) | — |
| 1974–75 | 568 | 478 | — | 0 | 10 |
| 1975–76 | 641 | 770 | — | 40 | — |
| 1976–77 | 695 | 898 | — | 243 | 12 |
| 1977–78 | 950 | 1,015 | — | 106 | — |
| 1978–79 | 1,022 | 1,089 | — | 84 | — |
| 1979–80 | 1,154 | 1,134 | — | 25 | 20 |

*Source:* British Sugar Corporation

## Imports of continental sugar

2.26. Under the Treaty of Rome there are no tariffs on intra-Community trade, thus sugar from areas of surplus in the Community, notably Denmark, the Netherlands and France, may enter the United Kingdom market without the hindrance of tariff barriers. However, the CAP arrangements permit continental producers to sell all their surplus quota sugar at the continental intervention price if it is of a given quality, and delivered to the nearest sugar storage depot approved by the Intervention Board. Selling to Intervention involves some storage cost for the producer and payment may be received later than by selling to the trade, ie to merchants or brokers. It is possible for the producer to sell to Intervention and store the sugar in his own silos. However, this may lead to difficulties if the silos are needed for sugar produced in the next season. Thus, even when the United Kingdom net realised price for bulk sugar is slightly less than the continental intervention price plus the cost of transport into the United Kingdom, it may still be profitable for continental sugar to be sold in this country rather than sold into Intervention.

2.27. In 1974–75, when the United Kingdom beet crop failed and there was a shortfall in supplies expected under the terms of the CSA, imports from the rest of the Community exceeded three-quarters of a million tonnes. In 1975–76 and 1976–77 poor beet crops meant that there were still significant gaps between United Kingdom demand and domestic supply (from ACP cane and United Kingdom beet sources), which were filled mainly by continental imports. However, although domestic beet sugar production has increased considerably over the past three years, so that the gap between domestic demand and supply has narrowed to 50,000 tonnes, imports from other EEC member states still amounted to over 170,000 tonnes in 1979–80, including some 33,000 tonnes imported into Northern Ireland from the Republic of

Ireland but excluding raw cane sugar imported from France for refining by Tate & Lyle. Much of this sugar is taken up by manufacturers who wish to keep open a third source of supply, either as an insurance against supply interruptions or as a competitive threat to the United Kingdom producers. No significant quantities of sugar imported from other parts of the EEC are sold on the retail market in Great Britain but in Northern Ireland the economies of transport are such that the retail sector has increasingly been serviced from the Republic of Ireland. The degree to which imports act as a competitive influence in the United Kingdom market is described in a later section.

**Summary of the demand for sugar in the United Kingdom and the sources of supply, 1973–80**

2.28. The overall effect of the new institutional framework on the United Kingdom's sources of supplies is illustrated in the table below. However, it is important to note that the substantial fall in demand has been an important influence on the United Kingdom market. At the time of the United Kingdom's entry into the EEC, domestic demand for sugar (net of sugar traded in manufactured foodstuffs) averaged around 2·6–2·7 million tonnes per annum, and peaked at over 2·9 million tonnes in 1973–74. The high prices prevailing at the time of the sugar shortage, and the actual shortage itself, brought about a sharp reduction in United Kingdom domestic consumption. The figures indicate that while the decline in demand may have been arrested, there is no sign of it returning to former levels.

TABLE 2.5

*('000 tonnes WSE)*

| | *1972–73* | *1973–74* | *1974–75* | *1975–76* | *1976–77* | *1977–78* | *1978–79* | *1979–80* |
|---|---|---|---|---|---|---|---|---|
| Demand | 2,648 | 2,969 | 2,316 | 2,435 | 2,470 | 2,451 | 2,365 | 2,434 |
| UK beet | 886 | 963 | 568 | 641 | 696 | 950 | 1,022 | 1,154 |
| Imports from EEC | 72 | 125 | 774 | 320 | 394 | 306 | 205 | 206 |
| Imports from third countries (see note) | 2,039 | 1,374 | 1,420 | 1,354 | 1,343 | 1,268 | 1,169 | 1,231 |
| Exports to EEC | 16 | 2 | — | 13 | 6 | 5 | 4 | 5 |
| Exports to third countries | 134 | — | 63 | 45 | — | 4 | 28 | 47 |
| Stock change | +199 | −509 | +383 | −178 | − 43 | + 64 | − 1 | +105 |

*Source:* Ministry of Agriculture, Fisheries and Food

*Note:*

Imports from third countries consist mainly of raw cane sugar imported for refining by Tate & Lyle. Before 1975 raw cane sugar was imported under the terms of the Commonwealth Sugar Agreement (see paragraph 2.8). From 1975 onwards imports of raw cane sugar have been governed by the Lomé Convention (see paragraphs 2.17–2.20).

2.29. Since becoming subject to the CAP regime British Sugar's corporate policy has been to expand its share of the United Kingdom market, and circumstances are such that the policy of devoting its resources to the needs of domestic customers is unlikely to change. Similarly, Tate & Lyle is virtually obliged to sell its quota of ACP sugar in the EEC as, under the EEC system, ACP sugar is ineligible for intervention support once it has been refined in Europe. Exports of sugar refined from ACP raws can be made under restitution arrangements (although this is excluded under Tate & Lyle's existing contracts), but the returns from exports would fail to cover Tate & Lyle's full costs of refining. The result is that the growth of beet production, the long-term nature of Tate & Lyle's contracts with ACP countries and the resilience of continental imports have combined to produce a situation of potential overall surplus in the United Kingdom market in years when there is a good beet crop. Nevertheless, any surplus in the United Kingdom market would be small compared with that elsewhere in the EEC and would not occur every year because of crop variations. When it does occur British Sugar could export any sugar that is in excess of its requirements and in fact is understood to have made arrangements for some exports in the year 1980–81.

2.30. The EEC as a whole is, partly by design, in surplus as a result of the increase in quotas introduced in 1974. In 1975–76 consumption and beet sugar production were approximately in balance, but since then consumption has remained static while production has increased by some 26 per cent (see Appendix 2). The sugar regime provides for periodic reviews and the structure of the sugar regime was due to be revised by early 1980 to take effect from 1980–81. The EEC Commission published its proposals in November 1979 and recommended that maximum quotas should be cut by 1·1 million tonnes, or by almost 11 per cent. These proposals, however, proved unacceptable to many member states, not least the United Kingdom where the Commission recommended a reduction of 29·4 per cent in the maximum quota. Revised proposals were later published but these still involved a 23·3 per cent cut in the United Kingdom maximum quota as against less than 10 per cent for the Community as a whole. As a result of the widespread opposition, maximum quotas remain unchanged for the year 1980–81, but new proposals have recently been put forward by the Commission, recommending an overall reduction in maximum quotas of 0·4 million tonnes, based on an average of the best three years 'B' quota sugar production out of the last five years. However, the effect of the formula is that the proposed cuts are not evenly distributed, with France and West Germany being granted higher 'B' quotas while the United Kingdom's 'B' quota is reduced by 234,000 tonnes. Further negotiations are likely before the quotas are finally agreed.

**Market structure, pricing policy and competition**

2.31. The market consists of two sectors—the industrial and the domestic sectors. (The catering trade is usually associated with the latter.) Sales into the industrial sector account for approximately 57 per cent of United Kingdom sugar consumption: the domestic sector accounts for the remaining 43 per cent.

2.32. Sugar is an important input into several food manufacturing processes as the table below illustrates in respect of the main industries involved.

TABLE 2.6 **Uses of industrial sugar**

| *Industry* | *Proportion of industrial sugar sold to a particular industry* | *Estimated share of sugar in the total material input* |
|---|---|---|
| | % | % |
| Chocolate and sugar confectionery | 26 | 50 (chocolate)<br>60 (sugar confectionery) |
| Soft drinks and mineral waters | 20 | up to 50 |
| Flour and baking products | 19 | 25 |
| Ice cream and milk | 7 | 44 |
| Canned and frozen food | 6 | 15 |
| Jams and preserves | 6 | 55 |
| Brewing | 4 | not available |
| Pharmaceutical | 2 | not available |
| Miscellaneous | 10 | — |

*Source:* British Sugar Corporation estimate.

2.33. The 15 largest industrial users account for 47 per cent of the sugar supplied to the industrial market. However, as Table 2.7 below shows, the industrial sector contains a large number of users who take less than 350 tonnes of sugar per annum.

TABLE 2.7 **Size distribution of industrial customers**

| *No of customers* | *Annual consumption* | *UK market share* % |
|---|---|---|
| 15 | Over 20,000 tonnes | 47 |
| 30 | 5–20,000 tonnes | 20 |
| 215 | 350–5,000 tonnes | 18 |
| 1,500–2,000 | Under 350 tonnes | 15 |

*Source:* British Sugar Corporation estimate

2.34. The concentration of retail buying power is even greater. At the end of the financial year 1979–80, 37 retail and wholesale customers negotiated directly with British Sugar and these accounted for 98·5 per cent of British Sugar's sales into the domestic sector.

## Market shares of suppliers

2.35. Table 2.5 above shows a significant change in the sources of United Kingdom sugar supplies and this is reflected in the market shares of the two producers in Table 2.8 below. It should be noted from Table 2.4 that, prior to the United Kingdom's accession to the EEC, a proportion of Tate & Lyle's production of refined sugar came from beet raws purchased from British Sugar. Since accession this position has been reversed and British Sugar has been purchasing refined sugar from Tate & Lyle to augment its own production. However, these purchases have been declining and were only 80,000 tonnes in 1979–80. (Tate & Lyle purchased beet raws from British Sugar in 1979–80 and the net purchases by British Sugar were 25,000 tonnes.)

TABLE 2.8

| | *1972–73* % | *1973–74* % | *1974–75* % | *1975–76* % | *1976–77* % | *1977–78* % | *1978–79* % | *1979–80* % |
|---|---|---|---|---|---|---|---|---|
| British Sugar deliveries | 26·0 | 29·1 | 19·7 | 31·1 | 36·0 | 40·2 | 46·0 | 48·9 |
| Tate & Lyle and Manbré & Garton deliveries | 70·0 | 63·8 | 54·6 | 59·5 | 53·9 | 49·9 | 46·3 | 43·1 |
| Imports (published statistics, not deliveries) | 4·0 | 7·1 | 25·7* | 9·4 | 10·1 | 9·9 | 7·7 | 8·0 |

*Source:* Ministry of Agriculture, Fisheries and Food.
* The year of the sugar shortage.

2.36. In view of the different characteristics of the industrial and retail markets we have examined the market shares of suppliers in the two sectors. In fact, the industrial sector can be further subdivided since sugar is supplied to food and drink manufacturers in liquid and dry form and market share figures for the year 1978–79 are shown below.

TABLE 2.9

| | *Retail/catering* | *Industrial dry* | *Industrial liquid* |
|---|---|---|---|
| | % | % | % |
| British Sugar | 49 | 49 | 27 |
| Tate & Lyle | 48 | 36 | 73 |
| Importers | 3* | 15 | 0 |
| | 100 | 100 | 100 |

*Source:* British Sugar Corporation and Tate & Lyle.
* Mainly imports into N Ireland from the Republic of Ireland.

2.37. The different market shares indicate different competitive influences in each sector. In the case of the retail sector the United Kingdom producers' share is unchallenged by continental imports of sugar. We have been told that this is partly because of the consistent high quality of sugar supplied by the United Kingdom companies, which has attracted considerable consumer loyalty, and partly because the scope for imported sugar to be distributed by large retail chains under their own-brand label is limited by the high cost of packaging and distribution and the fact that retail margins on sugar are particularly low.

2.38. The liquid sugar sector is dominated by Tate & Lyle because, in refining cane raws, a palatable liquid sugar may be extracted before the crystallisation stage of the refining process. The beet process is such that the sugar is fully processed first and then dissolved to produce liquid sugar. Tate & Lyle thus has an advantage over British Sugar in these products. Imports of liquid sugar cannot compete because of the additional cost of transporting a product with a high water content, but if liquid sugar prices were to rise too high there is the possibility that dry sugar could be imported and dissolved on site. A more significant source of competition for liquid sugar has been the growth of non-sugar sweeteners such as glucose syrups and isoglucose based on maize imported from the USA. Over the period 1960 to 1979 the demand for these products increased from 163,000 tonnes to 475,000 tonnes (dry weights). The effects of the sugar shortage and a consistent price advantage of between 5 and 15 per cent encouraged the substitution of glucose syrups for liquid sugar but demand for the former has now levelled off. We are advised that it is unlikely that further replacement of sugar by these other sweeteners will take place, partly because isoglucose production in the EEC is limited by quotas.

2.39. Table 2.9 shows that bulk, dry, granulated sugar for industrial purposes faces the greatest threat from import competition. Most United Kingdom food manufacturers, as a matter of policy, do not stock quantities of sugar but prefer to rely on a prompt and frequent delivery system of bulk tankers from the refiners; in some factories as many as 15 loads per day are delivered. The sugar shortage of 1974 caused the food manufacturing industry severe problems and, when the merger of Tate & Lyle with Manbré & Garton left the industry with only two sources of supply, many large firms made the decision to maintain a third source of supply in the form of imports. We were told that such an arrangement would be more flexible in meeting contingency needs should circumstances reduce the availability of domestic supplies.

2.40. The existence of a distribution network for imported sugar and the large surplus of sugar available on the continent acts as a competitive constraint on the United Kingdom refiners but, in order to examine its importance, we must first consider a further feature of the United Kingdom sugar market: the role of the sugar merchant and sugar brokers.

### The role of the merchant

2.41. There are six main merchants handling sugar in the United Kingdom. The table below sets out the proportion of United Kingdom producers' sugar handled by the merchants:

TABLE 2.10 **Analysis of United Kingdom producers' sales by merchant**

| *Merchant* | *Proportion of British Sugar sales by tonnage* | | *Proportion of Tate & Lyle sales by tonnage* | |
|---|---|---|---|---|
| | *1978–79* | *1979–80* | *1978–79* | *1979–80* |
| | % | % | % | % |
| Berisford | 49·1 | 46·0 | 31·7 | 34·9 |
| James Budgett | [Details omitted. See note on page iv.] | | | |
| Napier Brown | | | | |
| Edward Billington | | | | |
| A S Pigott | | | | |
| John Thomas | | | | |
| Other merchants | | | | |
| | 82·6 | 77·6 | 65·6 | 67·4 |
| Direct sales | 17·4 | 22·4 | 34·4 | 32·6 |
| | 100·0 | 100·0 | 100·0 | 100·0 |

*Source:* British Sugar Corporation and Tate & Lyle.

2.42. Berisford is by far the largest merchant, having full national coverage of customers of various sizes, and it has been assisted in reaching this position of eminence by a fairly active policy of acquiring smaller merchants. Budgett, recently acquired by the sugar brokers E D & F Man Ltd, is the next largest in terms of tonnage sold and has the greatest total number of customers. The other merchants are smaller in terms of tonnage supplied and some tend to have regional concentrations of buyers and to deal mainly with smaller customers. Most, however, have a few large accounts, which may involve servicing branches in various parts of the country. As a result, in virtually every area of the country there is at least one other merchant offering competition to Berisford and Budgett. The table on facing page indicates the distribution (by size of customer) of the accounts handled by each of the six main merchants:

TABLE 2.11 **Size distribution of merchants' customers**

| Merchant | Customers | | | | | |
|---|---|---|---|---|---|---|
| | *Number buying under 350 tonnes p a* | *Number buying 350–1,000 tonnes p a* | *Number buying 1,000–5,000 tonnes p a* | *Number buying 5,000–20,000 tonnes p a* | *Number buying over 20,000 tonnes p a* | *Total number of customers* |
| Berisford | 386 | 60 | 41 | 18 | 11 | 516 |
| 5 other main merchants in aggregate | 1,928 | 139 | 103 | 41 | 5 | 2,216 |
| 5 other main merchants individually: | | | | | | |
| Edward Billington | [*Details omitted. See note on page iv.*] | | | | | |
| James Budgett | | | | | | |
| Napier Brown | | | | | | |
| A S Pigott | | | | | | |
| John Thomas | | | | | | |

*Sources:* Berisford; Edward Billington; James Budgett; Napier Brown; A S Pigott; John Thomas.
*Note:*
The above table gives an indication of the size of the accounts handled by each merchant. However, since some customers make all or part of their purchases directly from the producers and some customers use more than one merchant, the figures do not accurately reflect either the total number of customers buying through merchants or the total sugar usage of purchasers.

2.43. Before the accession of the United Kingdom to the European Community, United Kingdom refiners purchased raw sugar from the Sugar Board at world prices and their refined sugar prices related to the world market prices. Thus the refined prices fluctuated daily and a merchant could make a profit by skilfully trading sugar against these fluctuations. Because of the fluctuating prices the merchants frequently hedged their purchases on the London sugar market. They competed for clients by attempting consistently to offer the lowest prices, and by advising clients when to purchase sugar; both involved correctly anticipating market movements. The discount structure of the producers was the other source of profit for the merchants, and provided the main source of income of all but the largest merchants. For example, British Sugar's list prices applied to all orders under 10 tons; a 60p per ton discount was offered on orders between 10 tons and 100 tons; orders between 100 tons and 1,000 tons received a discount of £1·40; and merchants could buy at an unpublished 1,000 ton rate which provided for a discount of £2 per ton off list price. In addition there was a £1·00 per ton discount for payment within 14 days. For a customer requiring 100 tons or more, the merchants generally supplied at the producer's list price, less the £1·40 per ton quantity discounts; for smaller quantities, or for customers where some credit risk was involved, they might charge a premium over list price. Although the merchant divided the 1,000 ton lots between his customers and carried out the invoicing and administrative arrangements he did not generally deliver the sugar. The physical delivery of sugar has traditionally been made by the producer, although the customer may rely on the merchant to arrange the timing and scheduling of deliveries.

2.44. The effect that the CAP has of protecting member states from the fluctuations of world markets has reduced the degree of internal price fluctuation to within a relatively narrow band. Because of this and the ending of zoning arrangements, the role of the merchants has changed considerably since the United Kingdom's accession to the EEC. The buying skills required in a market prone to rapid fluctuations are no longer important, although the merchants still provide information and advice on sugar trends, CAP matters etc. Furthermore, the abolition of market zoning meant that the producers had to compete for business, with the result that in many cases buyers and producers now negotiate prices directly for orders covering a 12 month period or more. Thus, in relation to sugar produced in the United Kingdom, the role of the merchant has been largely reduced to one of liaising between buyer and producer to ensure that the calling-off of orders is administered and invoiced correctly. This usually entails ascertaining the buyer's delivery pattern for the coming week, checking that the client has taken full advantage of the producer's delivery terms (drop-size discounts), informing the producer of the client's requirements, and ensuring that the delivery has been invoiced correctly. The producer accepts the order for delivery from the merchant and invoices the merchant as a principal. To obtain the producer's prompt payment discount the merchant must pay within 14 days and so the merchant has the task of collecting clients' money in that time. (In 1978–79 merchants were responsible for arranging and invoicing nearly 180,000 deliveries made by British Sugar.) However, the actual delivery of the sugar is made by the producer. The merchants told us that the reduction of their role in respect of the sale of domestically produced sugar applied particularly to British Sugar's products, since Tate & Lyle, unlike British Sugar, allowed the merchants to participate in price negotiations if the customer wished them to do so.

2.45. As a result of the price stability inherent in the CAP regime (and a reduction in the number of small independent customers, particularly in the retail sector) the opportunity for traditional merchanting has declined and, with it, an important source of profit for the merchant. The sugar shortage made it possible for the merchants to fulfil their traditional merchanting function for a short time after accession to the EEC, but by late 1974 it was clear that merchanting would not be viable without a substitute for the profit previously earned by correctly anticipating price movements. At that time statutory controls on prices prevented the producers from adjusting their discount structures and, in acknowledgment of the services rendered to them by the merchants, the producers agreed to pay merchants an allowance per tonne on sugar sold and delivered by the producer but invoiced through a merchant. In the case of British Sugar, a merchants' allowance of £1·20 per ton on packets of sugar and 40p per ton on bags and bulk sugar (in addition to the existing discounts) was introduced on 1 January 1975. On 15 August 1976 (metrication day) the cash discount for prompt payment was amended from £1 per ton to 95p per tonne. The cash amounts of the quantity rebates were left unchanged. On 5 November 1979, British Sugar abolished quantity rebates and substituted a discount of £2·35 per tonne for prompt payment and a 60p per tonne 'administration allowance' for merchants irrespective of the size of order. Simultaneously, the existing merchants' allowances were increased to £1·45 on packet sugar and 50p on bags and bulk sugar. Tate & Lyle pays the merchants an allowance of £1·25 per tonne for all types of sugar, with a small additional rebate paid at the end of each month.

2.46. For most 'profile' sales (and for all British Sugar's profile sales) the terms are negotiated between the buyer and the producers directly, rather than by the merchant on behalf of his customer. In the case of British Sugar's sales, the discount agreed is always rebated directly to the customer. Nevertheless, the merchant sometimes discovers prices that are being offered to other customers and can, therefore, represent an additional source of information for his customer about this.

2.47. The merchant may also service his customers' needs by supplying sugar that he has purchased on his own account from United Kingdom producers, or that he has purchased from continental suppliers. The latter may include relatively cheap parcels of sugar which the merchant has already purchased from a continental producer or a sugar broker; his task is then to find a customer for that sugar. In other cases a client may ask his merchant to quote a price for regular delivery of sugar over, possibly, a six month period in the same manner as United Kingdom producers are asked to quote prices. The merchant submits the quotation according to his assessment of fluctuations in continental prices, transport costs, currency exchange rates and MCAs and then times and places his purchases of sugar to fulfil the contracts at the lowest cost; he may even buy the sugar from British Sugar or Tate & Lyle on his own account if they are willing to offer a lower price than continental suppliers. Occasionally, a 'back-to-back' deal can be arranged, when the merchant purchases continental sugar directly in response to an order for such sugar from his customer.

**The role of the broker**

2.48. The United Kingdom's administrative control over the West Indian sugar islands was an important element in establishing the City of London as a centre of the international sugar trade. Furthermore, the establishment of a market for sugar futures in 1888 and its development since then has ensured that the City has retained its position in the world sugar market. An important role of the sugar brokers, some of whom are associated with or part of international trading houses, is to provide the facilities for trading in futures contracts on the London Terminal Market.

2.49. The operations of the futures market require secure supplies of sugar to provide participants with the physical backing to honour futures contracts. In the aftermath of World War II the dollar shortage interrupted the operations of the London Terminal Market because the fulfilment of futures contracts could not be guaranteed. Thus it was not until 1957 that the London Terminal Market reopened using the quota sugar negotiated under the Commonwealth Sugar Agreement (and therefore purchased within the Sterling Area) as the physical backing for futures contracts.

2.50. Apart from providing facilities for trading on the futures market, the brokers' principal role is servicing his many clients in the United Kingdom and abroad by booking or buying and selling all types of sugar in widely varying quantities to meet their needs and by providing advice on likely trends in the world sugar market. In distinguishing between the roles of merchants and brokers, the merchants' function of administering and invoicing the orders for sugar on behalf of many industrial and retail buyers may be contrasted with the large international contracts arranged by brokers. Broking firms, whether working on commission for a selling agency or purchasing sugar in their own right for resale, are devoted to the international trade and shipment of sugar.

2.51. Under the Sugar Board regime the brokers' involvement in the United Kingdom market was limited to arranging the sale and shipment of CSA sugar and 'Commonwealth frees' to United Kingdom refiners and to providing terminal market services for United Kingdom refiners, merchants, manufacturers etc. Following accession to the EEC, the sugar shortage of 1974 opened up the home market to continental refined sugar. In the scramble to alleviate the shortage, merchants purchased directly from continental refiners, and some brokers, notably Czarnikow and E D & F Man, began selling sugar direct to industrial customers. However, in recent years the market appears to have settled down and merchants and brokers have tended to revert to their traditional roles. There are, however, exceptions. For example, Czarnikow continues to act as the agent for De Danske Sukkerfabbrikker of Denmark selling directly to large industrial users, Napier Brown has retained its close links with continental refiners, and E D & F Man acquired James Budgett for its United Kingdom merchanting and EEC importing contribution.

### British Sugar's pricing and marketing policy

2.52. British Sugar's marketing strategy has been increasingly to negotiate prices and discounts directly with certain customers, known as 'key account' customers. These now number approximately 265 in the industrial market and account for 92·5 per cent of British Sugar's industrial tonnage sales. In the retail market British Sugar negotiates directly with 37 retail and wholesale customers and these constitute 98·5 per cent of its retail and catering sales. British Sugar's marketing department has devised a price formula which takes into account such factors as volume, regularity of purchase, particular savings in transport costs of each profile customer, and also the need to sell sugar to maintain the balance between storage capacity and sugar stocks. Discounts are offered off list price according to this profile of the customer's business. Prices are agreed, subject to institutional price changes (either support price or green pound movements), usually for one year with retail buyers and for between three and eighteen months with industrial buyers. The buyer may choose to place his detailed orders via a sugar merchant or he may take care of the administration himself. The current price structure offers no inducement to the buyer not to place the order through a merchant and, consequently, the vast majority of British Sugar's sales are still invoiced through merchants, as the table below shows.

TABLE 2.12 **Quantity of sugar invoiced through merchants by British Sugar**

| | *1974-75* (tonnes) | *1975-76* (tonnes) | *1976-77* (tonnes) | *1977-78* (tonnes) | *1978-79* (tonnes) | *1979-80* (tonnes) |
|---|---|---|---|---|---|---|
| Total merchants | 366,590 | 605,808 | 743,693 | 827,981 | 914,892 | 864,748 |
| British Sugar total sales | 479,608 | 772,569 | 907,753 | 994,071 | 1,107,342 | 1,115,256 |
| % through merchants | 76·4 | 78·4 | 81·9 | 83·3 | 82·6 | 77·5 |

*Source:* British Sugar Corporation.

2.53. British Sugar's marketing strategy has been successful in expanding its market share. However, it has also affected the merchants' pricing policy. The merchants' price lists, circulated to their customers, generally set varying additional charges, which may be up to £12 per tonne, over and above United Kingdom producers' list prices. They are willing to rebate this charge, wholly or in part, according to such factors as prompt payment, the tonnage ordered, the credit risk and the amount of paperwork involved in processing the order. The circulation of list prices by British Sugar to an increasing number of customers (accounting for almost 95 per cent of its turnover), and its willingness to trade at list price or possibly less, has forced merchants to grant a full rebate to a large number of their customers. The merchants complain that British Sugar's direct dealing, at discounts from list price, has been extended to very small customers at prices which do not reflect the attendant credit risks. British Sugar has denied this and has estimated that there are over 1,500 small industrial users who are not key account customers of British Sugar.

2.54. In setting its prices, British Sugar takes account of competition from Tate & Lyle and of competition afforded by the merchants, either in the form of sugar imported from the continent or bought on own account from the producers. In effect, the excess refining capacity borne by Tate & Lyle and the EEC's pricing mechanism have reduced its ability to compete vigorously with British Sugar for marginal contracts, since the latter's higher profit margin has given it a substantial marketing advantage. Thus the main source of competitive constraint on British Sugar's pricing policy is sugar available from the continent and offered for sale on the United Kingdom market by merchants and brokers. In addition, some larger users may choose to buy sugar directly from continental producers.

**Competition from merchants**

*(a) Sales of United Kingdom producers' sugar bought by merchants on their own account*

2.55. Although the quantities involved are relatively small, the sugar purchased from United Kingdom producers by merchants on their own account provides a degree of competition for sugar sold by United Kingdom producers. Much of this is sold to small customers. There has also occasionally been some sugar purchased from producers by merchants immediately prior to an institutional price increase (eg a green pound devaluation), which has been sold more widely in competition with the producers' sugar once the new price came into operation. The quantities of such sugar purchased by Berisford and the other major merchants from British Sugar are shown in the table below:

TABLE 2.13 **Merchants' purchases on own account from British Sugar**

| | *1978-79* tonnes* | *1979-80* tonnes* |
|---|---|---|
| Berisford | 20,850 | 20,300 |
| Other major merchants | 19,150 | 36,750 |
| Total | 40,000 | 57,050 |

*Source:* British Sugar Corporation.

* Invoiced sales by British Sugar Corporation.

2.56. Tate & Lyle was unable to identify the exact tonnage which is purchased by merchants entirely on their own account. Information on own-account purchases provided by Berisford and the other major merchants, however, indicates that a much greater quantity of sugar for own-trading is purchased from Tate & Lyle than from British Sugar.

*(b) Sales of imported sugar*

2.57. Of much greater significance as a constraint on market price is the potential supply of sugar produced in the EEC. At the time of the sugar shortage, merchants, large food manufacturers and others not normally connected with the sugar trade purchased sugar directly from continental sources but the variability of quality was such that, once normal supply conditions were resumed, the international trading in sugar returned to a large extent to those with the expertise, ie the sugar brokers. The sugar terminal markets in London and Paris are international markets and, with the CAP regime generating a surplus of quota sugar currently in excess of 3 million tonnes, brokers are continually searching for profitable opportunities to place this sugar on world markets. The system of levies and subsidies for exporting quota sugar means that the realised price for exports outside the EEC is approximately the intervention price. Thus, if prices within the United Kingdom exceed a level which would cover the continental intervention price and provide for the combined cost of transport from the continent and the distribution within the United Kingdom (estimated to be between £15 and £25 per tonne), a greater profit can be made by selling the surplus EEC sugar in the United Kingdom than by selling it into intervention. Some of this sugar is purchased by merchants (timing purchases to coincide with favourable currency movements), who offer it to their clients in competition with the United Kingdom producers. However, as noted in paragraph 2.51, some sugar brokers have themselves taken on a merchanting role by contacting industrial buyers direct.

2.58. Although the quantity of imports has diminished in recent years (see Tables 2.5 and 2.8), the level of imports of refined sugar into the United Kingdom from other EEC member states is still over 170,000 tonnes pa. After excluding imports into Northern Ireland from the Republic of Ireland, imports of refined sugar from continental member states amounted to over 140,000 tonnes in 1979–80 (see Table 2.14). That level is sustained to some degree by the third source principle because the price in many contracts may at times be no lower and possibly slightly higher than that on offer from United Kingdom producers. It is this established channel of transport and distribution which ensures that if United Kingdom prices were to rise much above the continental intervention price plus the cost of importing, manufacturers would have ready access to alternative, cheaper supplies. We have therefore examined the potential of competing merchants and brokers to import sugar.

2.59. Much of the sugar delivered by the United Kingdom producers to food manufacturers is sent in road tankers and the plants have been developed to accept sugar in this manner. Imported sugar, on the other hand, arrives mainly by container transport, either in bags or loose. To offer customers an efficient delivery service tailored to their needs, it has been necessary for merchants and brokers to develop delivery systems similar to those used by producers, or to persuade the manufacturers to make their plants more flexible in their offtake of sugar. Both approaches have been successful, although the most common has been delivery by road tanker. This requires a loading frame (at the docks) to transfer the loose sugar from the container into the waiting tankers. Merchants have their own tankers and also hire when necessary. Companies that are willing to accept sugar in 25 kg or 50 kg bags present the least problem because the sugar can be delivered directly in the container.

2.60. We found from our inquiries that all the large merchants and some brokers were involved in the import of continental sugar. At present the largest exporter of sugar to the United Kingdom is De Danske Sukkerfabbrikker of Denmark which, in association with the London broker Czarnikow, sells under contract to large industrial users. In 1978 Berisford imported some 60,000 tonnes which was 19·9 per cent of total imports into the United Kingdom and 22·3 per cent of continental imports into Great Britain (ie excluding sugar imported into Northern Ireland from the Republic of Ireland (see Table 2.14)). Berisford's recent imports have been at a lower level and it has only accounted for a relatively low proportion of the imports through merchants or brokers in the two years to 30 September 1980, as Table 2.15 below indicates. Potentially, however, Berisford remains a major source of imported sugar with a substantial national network.

TABLE 2.14 **Imports of sugar into the United Kingdom from other EEC member states ('000 tonnes)**

| | *1977-78* | *1978-79* | *1979-80* |
|---|---|---|---|
| (1) Total EEC imports into UK | 306 | 205 | 206 |
| (2) EEC imports excluding raw sugar imported by Tate & Lyle | 306 | 169 | 174 |
| (3) Imports from continental EEC member states (excluding raw sugar imported by Tate & Lyle and imports into Northern Ireland from the Republic of Ireland) | 274 | 131 | 141 |
| (4) Berisford's imports from other EEC member states | 61 | 22 | 7 |
| (5) Berisford's imports as a proportion of line (1) above | 19·9% | 10·7% | 3·4% |
| (6) Berisford's imports as a proportion of line (3) above | 22·3% | 16·8% | 5·0% |

*Source:* MAFF; Monopolies & Mergers Commission.

TABLE 2.15 **Imports of sugar from other EEC countries through merchants and through brokers acting as agents for continental producers**

| | *Year to 30.9.79* tonnes | *Year to 30.9.80* tonnes |
|---|---|---|
| Total EEC imports into Great Britain by main merchants and by brokers acting as agents | 125,000 | 130,000 |
| Berisford's EEC imports | 22,000 | 7,000 |
| Berisford's imports as a proportion of total | 17·6% | 5·4% |

*Source:* Monopolies & Mergers Commission.

CHAPTER 3

# S & W Berisford Ltd

3.1. S & W Berisford Ltd is a holding company for an international group of companies with a wide variety of activities. The S & W Berisford Ltd group (Berisford) is principally involved in merchanting and commodity trading. Other activities include the processing and distribution of raw materials such as secondary metals, wool, food and drink; farm and construction machinery distribution; forest products; chemical manufacturing; finance and insurance; leather tanning and production; and bottling and merchanting of wines and spirits.

3.2. S & W Berisford Ltd has its origins in a chemist and grocery business founded by Samuel and William Berisford in the 1850s. Under another William Berisford, the grandson of one of the founders, the business moved into sugar merchanting, acquired additional premises in Manchester and, by the turn of the century, was acknowledged as one of the leading sugar merchants in the country. In 1910 William Berisford was elected Chairman of the United Kingdom Sugar Dealers Association and Berisford became a public company.

3.3. After the first World War Berisford continued to grow, both by the expansion of existing activities and by the purchase of new interests. In 1926 Berisford acquired Henderson and Liddell Ltd, a substantial sugar merchant which also had a considerable business in canned goods. That business, together with the acquisition of J F Turner & Co of Liverpool, formed the basis of Berisford's operation as a merchant of canned goods and dried fruit. The acquisition of Henderson and Liddell eventually led to the moving of Berisford's head office from Manchester to London.

3.4. Between 1945 and 1959 some 20 further trading businesses were acquired by Berisford. The first public company to be taken over was Joseph Travers and Sons Ltd, which traded in sugar, spices, coffee, canned goods, cereals, citrus fruits and wine. That acquisition increased the range of commodities in which Berisford dealt, but the company remained essentially a domestic British operation supplying the United Kingdom market.

**Acquisition of Rayner**

3.5. It was not until 1968, with the acquisition of J H Rayner (Mincing Lane) Ltd (Rayner), that Berisford moved into international trading to any significant degree. Rayner had extensive international trading interests, principally in cocoa and coffee with some business in sugar and metals, and made a considerable contribution to the group's activities. The present Chairman and Managing Director of Berisford, Mr E S Margulies, was the Chairman and Managing Director of Rayner and joined the main Berisford board in 1970.

**International expansion**

3.6. After the acquisition of Rayner, the group was very strongly placed as a commodity trader, dealing in many different commodities in both the United Kingdom and international markets, in both physical materials ('physicals') and in 'futures'. It has since, by internal growth, become a major international trader in metals, oil seeds, nuts and tea.

**The development of Berisford as a manufacturer**

3.7. An important aspect of the broadening of Berisford's base over the past ten years has been its diversification into processing and manufacturing, which again was achieved partly by internal growth and partly by acquisition. In the case of the acquisitions there was usually some relationship between the whole, or an important part, of the business, taken over and Berisford's existing businesses or skills.

3.8. In the early 1950s, when the emphasis in retail grocery was passing from small grocers to supermarkets selling pre-packed goods, Berisford commenced the production and sale to the trade of pre-packed dried fruits and cereals under the brand name 'Haven'. In 1970, as a result of expansion, Haven's operations were moved to a new factory and warehouse complex, which was built by Berisford at Holmes Chapel. Haven is now the second largest supplier in the United Kingdom of pre-packed dried currants, sultanas and raisins; it is also a substantial supplier of dried pulses and rice.

3.9. In 1968 Berisford acquired the old-established business of Matthew Walker (Derby) Ltd, for which it built a new factory at Heanor, Derbyshire. Matthew Walker manufactures a range of Christmas puddings, mincemeat and lemon cheese. In 1979 new plant was installed to manufacture rich fruit cakes, mainly for the export market. The turnover and profit of the business have grown in every year since acquisition.

3.10. Berisford consolidated the pepper and spice interests of three of its subsidiaries and, in 1970, transferred them to the newly-formed The British Pepper and Spice Company in consideration of 76 per cent of the equity in that company. Matthews Holdings Ltd contributed its pepper and spice interests (Drysdale Dennison & Co Ltd) in consideration of the remaining 24 per cent of the equity, which it later sold to Berisford in 1973. British Pepper and Spice is a major supplier of bulk and pre-packed pepper and spices to both manufacturers and retailers, under its own brands and under retailer customers' brands.

3.11. 1970 also saw the establishment of Jaf-Ora (UK) Ltd, a Berisford subsidiary which imports orange and grapefruit concentrates in bulk and bottles those products and fruit squashes for distribution, under its own label and customers' labels, to grocery, supermarket and cash-and-carry trades.

3.12. In 1973 Berisford acquired a controlling interest in Kascho Kakao- und Schokoladenwerke GmbH of West Berlin, a substantial manufacturer of cocoa products such as cocoa powder, cocoa liquor, cocoa butter and chocolate couverture. Berisford acquired the outstanding shares in Kascho

Kakao in 1979 and in 1980 it acquired a controlling interest in Wessanen Cacao BV of Wormerveer in the Netherlands, which also manufactures cocoa products. The turnover of Berisford's continental cocoa-processing interests in 1980 is expected to exceed £100 million.

3.13. In 1973 Berisford arranged to merge the small wine business of its subsidiary Joseph Travers & Sons (paragraph 3.4) with the similar business of a private company, Capital Wine Agencies. The new company so formed is Capital Wine and Travers Ltd, which is based in Harwich and is owned 50·1 per cent by Berisford and 49·9 per cent by the previous owners of Capital Wine Agencies, who are the day-to-day managers of the business. The company operates as importers and bottlers of a range of wines and spirits.

3.14. Also in 1973 Berisford acquired Smithfield and Zwanenberg which had old-established meat trading interests, abattoirs, a meat by-products business and a wool merchanting business. The latter business was expanded by the purchase of three wool scouring businesses, so that Berisford would be able to provide the full range of wool merchanting services from its own resources. One of the acquisitions was Jarmain & Son Ltd which is now the biggest commission wool scourer in the United Kingdom, acting both for Berisford and for outside clients. The development of the group's wool-processing business has entailed investment of over £3 million. All the scouring and warehousing activities have been concentrated at the group's Huddersfield site, where a large new warehouse has been built and two new scouring lines have been installed.

3.15. In 1976 Berisford acquired the Tom Martin Metals Group Ltd (Tom Martin) which was a substantial reprocessor of metals to produce secondary metals and alloys. Berisford, through its subsidiary Rayner, already operated on the London Metal Exchange and the acquisition of Tom Martin enabled the group to extend its metal interests into the supply of physical metals and to increase its manufacturing activities significantly. The acquisition also enabled Berisford to expand into overseas markets by the establishment of Berisford Metals Corporation in New York, to trade in non-ferrous metals, and the purchase of Erlanger and Company Inc, a US dealer in minor non-ferrous metals such as cadmium and cobalt. Both companies have provided new outlets for Tom Martin's products.

3.16. The Tom Martin Metals Group accounts for a substantial part of Berisford's manufacturing interests. The various subsidiary companies deploy a wide range of manufacturing and technical skills, from the heavy processing and engineering work involved in metal smelting to the sophisticated chemical and laboratory work involved in quality control and the identification and production of high-grade alloys. The Tom Martin Group achieved a turnover of £44·1 million in 1979 and had a total of 712 employees.

3.17. In 1978 Berisford purchased Turner Curzon Ltd, principally in order to acquire the timber broking business of its subsidiary company Churchill and Sim Ltd. It also acquired Turner Curzon's interests in the distribution of farm and other machinery, in chemical manufacture and in light and heavy engineering.

3.18. In 1979 Berisford purchased from the receiver of British Tanners Products Ltd the land, buildings and certain other assets of that company's tanning business at Hull. The group's immediate interest was to preserve a major source of raw material for its subsidiary, Gelatine Products Ltd. However, the assets acquired were reorganised into a new tanning business, Holmes Halls Tanners Ltd, which employs 340 people and had a budgeted turnover for 1980 of £15 million.

3.19. Despite the diversification into processing and manufacturing which has taken place over the past decade, Berisford is still principally a merchant and commodity trader. The turnover and profit attributable to the various different activities of the group, in the year ended 30 September 1979, were as follows:

| *Activity* | *Turnover* £'000 | % | *Pre-tax profit* £'000 | % |
|---|---|---|---|---|
| 1. Merchanting and commodity trading | 1,993,187 | 91·8 | 21,351 | 66·3 |
| 2. Finance and insurance (see Note 1) | 1,204 | 0·1 | 2,218 | 6·9 |
| 3. Manufacturing, processing and other activities: | | | | |
| (*a*) Secondary metals | 37,750 | 1·7 | 4,009 | 12·4 |
| (*b*) Cocoa products | 80,820 | 3·7 | 3,118 | 9·7 |
| (*c*) Food and drink | 10,249 | 0·5 | 813 | 2·5 |
| (*d*) Wool processing | 1,979 | 0·1 | 263 | 0·8 |
| (*e*) By-products | 10,386 | 0·5 | 323 | 1·0 |
| (*f*) Meat division | 31,750 | 1·5 | 66 | 0·2 |
| (*g*) Turner Curzon Group | 2,846 | 0·1 | 64 | 0·2 |
| Total | 2,170,171 | 100·0 | 32,225 | 100·0 |

Note 1:
The turnover set against 'Finance and insurance' relates solely to the group's insurance activities whereas pre-tax profit also includes finance activities, for which there is no turnover.

Berisford was unable to produce a breakdown of its turnover and pre-tax profit figures to show the total amounts attributable to its trading in sugar both in the United Kingdom and on international markets. Figures were available, however, for the merchanting of sugar on the United Kingdom market (see paragraph 3.22) and showed that this activity accounted for 12·5 per cent of the turnover and 5·4 per cent of the pre-tax profit of the group in the year ended 30 September 1979.

**Structure of the group**

3.20. The parent company (S & W Berisford Ltd) is a holding company which operates through more than 80 active subsidiary companies in the United Kingdom and overseas. The main board consists of the Chairman and Managing Director (Mr E S Margulies) and eight other executive directors. The subsidiary companies are grouped, according to the nature of their business, into various operating divisions, each of which is responsible to the main board through a divisional director who is a member of that board. The parent company maintains a headquarters staff which is responsible for the group's corporate and financial strategy and for the provision of specialist services, such as advice on European Community matters, to all group companies. Each operating division of the group has a high degree of autonomy and is responsible for maintaining the full range of personnel, accounting and other staff services in support of its activities. The divisional structure of the group, showing the subsidiary companies, their location and their principal activities is shown at Appendix 3. The average number of employees of the whole group in the year ended 30 September 1979 was 3,632, of whom 2,936 were employed in the United Kingdom.

**Berisford's sugar business**

3.21. The Berisford group deals in sugar in two different ways. First, sugar is one of the commodities handled by Berisford's international Commodities Division through its subsidiaries, J H Rayner (Mincing Lane) Ltd, Lonray Inc (USA) and Interhansa Zuckerhandels GmbH (Munich). The Commodities Division is a substantial trader both in the export of surplus refined sugar from other EEC member states and in sugar trading in other parts of the world. In terms of the total volume of business handled, Berisford is one of the largest sugar traders operating on the London Terminal Market, usually acting as a broker on a commission basis. The amount of such business handled by Berisford acting as a principal, rather than as an agent, is relatively insignificant.

**Merchanting of sugar in the United Kingdom**

3.22. The second way in which Berisford deals in sugar is as a merchant supplying both British-refined sugars and other EEC-refined sugars to the United Kingdom market. That business is completely separate from the operations of the group's Commodities Division and is conducted by Berisford's Sugar Division, of which S & W Berisford (Sugar) Ltd is the principal company. (The role of the sugar merchants, including Berisford, in the supply of sugar to the home market is described in paragraphs 2.41–2.47.)

3.23. Berisford is by far the largest sugar merchant in the country, handling almost half of all the sugar sold by the British Sugar Corporation and around one-third of the sugar sold by Tate & Lyle (see Table 2.10). The company also purchases imported sugar, mainly from other EEC countries, which it sells to customers in the United Kingdom. The total tonnage of sugar merchanted by Berisford's Sugar Division over the last three years represents around 37–38 per cent of total United Kingdom consumption over the period.

**Analysis of total tonnage of refined sugar merchanted by Berisford's Sugar Division 1976–80**

| *Source* | *Y/E 30.9.78* | | *Y/E 30.9.79* | | *Y/E 30.9.80* | |
|---|---|---|---|---|---|---|
| | tonnes | % | tonnes | % | tonnes | % |
| British Sugar Corporation Ltd | 494,500 | 51·9 | 546,500 | 59·8 | 499,000 | 57·2 |
| Tate & Lyle Refineries Ltd | 396,600 | 41·6 | 343,800 | 37·6 | 361,400 | 41·4 |
| Imports from continental EEC countries | 61,400 | 6·4 | 22,000 | 2·4 | 6,800 | 0·8 |
| Imports from the rest of the world | 900 | 0·1 | 2,100 | 0·2 | 5,000 | 0·6 |
| Total | 953,400 | 100·0 | 914,400 | 100·0 | 872,200 | 100·0 |

*Source:* S & W Berisford Ltd.

3.24. As the table in paragraph 3.23 above shows, Berisford's imports from the rest of the EEC have been falling in the last two years. Although there has been a reduction in total imports of continental sugar in recent years, due to the United Kingdom supply position and pricing structure (see paragraphs 2.28 and 2.58), Berisford's proportion of that total has also fallen.

3.25. In common with other sugar merchants, Berisford supplies sugar to customers in two different ways (see also paragraphs 2.43-2.47);

(*a*) The merchant supplies British-refined sugar for which the terms of the contract have been negotiated between the refiner and the ultimate customer or 'end user'. The merchant is responsible for processing orders, invoicing customers, cash collection and acceptance of credit risk and is paid a 'handling allowance' by the refiner. Deliveries are made by the refiner direct to the end user. (For ease of reference, sales of this type are referred to as 'nominal merchanting'.)

(*b*) The merchant sells both imported and some British-refined sugar which he has purchased on his own account and he therefore sets the price to the end user. ('True merchanting'.) The sugar may be stored and ultimately delivered to the end user either by the merchant himself or, in the case of British-refined sugar, by the refiner on the merchant's behalf.

Most of Berisford's sugar sales are made on the former basis as the following breakdown shows:

| *Type of sale* | *Y/E 30.9.78* % | *Y/E 30.9.79* % | *Y/E 30.9.80* % |
|---|---|---|---|
| 'Nominal merchanting' of British-refined sugar | 84·2 | 91·9 | 92·75 |
| 'True merchanting' of British-refined and imported sugar | 15·8 | 8·1 | 7·25 |
| Total | 100·0 | 100·0 | 100·0 |

*Source:* S & W Berisford Ltd.

3.26. Limited processing of some of the sugar which Berisford buys in its own right is carried out by the subsidiary company, Commodity Producers and Packers Ltd, at Trafford Park. The company has a warehousing capacity of some 3,000 tonnes, can receive up to 200 tonnes of bulk sugar and 200 tonnes of bagged sugar per day and has its own distribution facilities. Its activities include re-packaging of sugars and some processing of granulated sugar into caster sugar, icing sugar and powdered sugar.

**Financial information**

3.27. The Berisford group consists of a holding company and an inter-related number of subsidiary companies together with two main associated companies (in both of which Berisford has a 50 per cent holding). In order to illustrate Berisford's range of activities we set out in the tables below geographical and divisional analyses of the group's turnover and pre-tax profits for the five years 1974–75 to 1978–79, as shown in the published accounts.

**Analysis of turnover and pre-tax profits**

*Geographical analysis*

| | *1974–75* | | *1975–76* | | *1976–77* | | *1977–78* | | *1978–79* | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Region* | *Turn-over* £m | *Profit* £m | *Turn-over* £m | *Profit* £m | *Turn-over* £m | *Profit* £m | *Turn-over* £m | *Profit* £m | *Turn-over* £m | *Profit* £m |
| UK | 409·4 | 4·1 | 434·6 | 7·2 | 709·4 | 12·6 | 691·5 | 11·8 | 1,106·1 | 16·0 |
| Europe | 58·2 | 1·2 | 52·2 | 0·7 | 108·5 | 2·2 | 177·6 | 6·7 | 425·1 | 5·5 |
| North America | 46·2 | 1·0 | 92·3 | 1·1 | 145·5 | 1·6 | 164·6 | 1·4 | 199·3 | 0·5 |
| Entrepot (Note 1) | 176·7 | 3·0 | 189·3 | 4·6 | 298·2 | 7·2 | 307·8 | 11·4 | 439·7 | 10·2 |
| | 690·5 | 9·3 | 768·4 | 13·6 | 1,261·6 | 23·6 | 1,341·5 | 31·3 | 2,170·2 | 32·2 |

*Divisional analysis (Notes 2 and 3)*

| *Activity* | £m | £m | £m | £m | £m | £m | £m | £m |
|---|---|---|---|---|---|---|---|---|
| Merchanting and commodity trading | 765·4 | 12·9 | 1,230·9 | 20·9 | 1,312·7 | 28·3 | 2,051·5 | 24·4 |
| Secondary metals | 3·0 | 0·3 | 30·1 | 2·8 | 28·1 | 2·2 | 44·2 | 4·1 |
| Finance, insurance and central administration | — | 0·4 | 0·6 | (0·1) | 0·7 | 0·8 | 1·2 | 2·2 |
| Processing and other activities | N/A | N/A | N/A | N/A | N/A | N/A | 73·3 | 1·5 |
| | 768·4 | 13·6 | 1,261·6 | 23·6 | 1,341·5 | 31·3 | 2,170·2 | 32·2 |

*Notes*

(1) Entrepot represents external trading on which profits accrue to the United Kingdom.

(2) Divisional analysis of turnover and profits was not published in the Directors' Report for 1974–75.

(3) An analysis of the figures for 1978–79, showing the processing activities in more detail, is given in paragraph 3.19. In producing the detailed table, Berisford has informed us that certain adjustments were made to ensure the table accurately reflected the activity involved. In particular, the figures attributed to secondary metals were adjusted to eliminate activities which contained no secondary processing activity and the blending activities of a subsidiary were not considered significant enough to allow its results to be included in the processing sector.

3.28. Berisford is a public company and at 30 September 1979 it had an authorised share capital of £30·15 million, of which some £22·47 million was issued. A table analysing the share capital (both authorised and issued) is set out below:

| *Share capital as at 30 September 1979* | *Authorised* £m | *Issued* £m |
|---|---|---|
| 75,000 7½% cumulative preference shares (£1 each) | 0·075 | 0·075 |
| 75,000 5% cumulative preference shares (£1 each) | 0·075 | 0·075 |
| 120 million ordinary shares of 25p each, of which some 89·262 million are issued | 30·000 | 22·316 |
| Total | 30·150 | 22·466 |

3.29. The issued capital increased quite rapidly over the five years to 30 September 1979. At the beginning of 1974–75 (ie 1 October 1974) the issued share capital was £3·375 million and an analysis of how the increase to £22·466 million occurred is as follows:

| | £m |
|---|---|
| Issued preference share capital | 0·150 |
| Issued ordinary share capital | 3·225 |
| Amount at 1 October 1974 | 3·375 |
| Increase in ordinary share capital as result of: | |
| Conversion of unsecured loan stock | 0·762 |
| Scrip dividend option | 0·090 |
| Consideration for acquisitions | 1·003 |
| Rights issue | 5·327 |
| Bonus issue | 11·909 |
| Total at 30 September 1979 | 22·466 |

During the same period equity (including issued share capital and retained profits, and allowing for the different accounting convention relating to deferred taxation) increased by £100·4 million from £19·0 million as at 1 October 1974 to £119·4 million as at 30 September 1979.

3.30. At the time of the publication of the latest available annual report (ie for the year ended 30 September 1979) only one organisation held 5 per cent or more of Berisford's issued ordinary shares: the Prudential Corporation Group (PCG), which owned 4·464 million ordinary shares representing just over 5 per cent of total issued shares in that class at 30 September 1979. (At the same date PCG also had a holding of shares in British Sugar representing 5·96 per cent of British Sugar's total authorised and issued capital. This shareholding was increased subsequently and, at 30 September 1980, represented 6·32 per cent of British Sugar's total authorised and issued capital—see paragraph 4.23.)

3.31. A summary of Berisford's group turnover and profits (based on historical costs) for the five years ended 30 September 1979 is set out at Appendix 4.

3.32. During the five years to 1978–79 Berisford was actively engaged in acquiring other companies. Tom Martin Metals and Turner Curzon, purchased during 1975–76 and 1978–79 respectively, were among these acquisitions. Accordingly, when considering the simple average capital employed, it has been necessary to make some adjustments for these major acquisitions. A summary of returns on capital employed and turnover for the five years 1974–75 to 1978–79, duly adjusted, is set out in the table below.

| *Particulars* | *1974–75* £'000 | *1975–76* £'000 | *1976–77* £'000 | *1977–78* £'000 | *1978–79* £'000 |
|---|---|---|---|---|---|
| Operating profit | 11,226 | 14,475 | 26,413 | 33,255 | 42,516 |
| Profit before interest | 12,008 | 14,994 | 27,361 | 34,296 | 42,653 |
| | % | % | % | % | % |
| Operating profit as a percentage of turnover | 1·6 | 1·9 | 2·1 | 2·5 | 2·0 |
| Profit before interest as percentage of simple average capital employed (see Notes 1 and 2) | 36·4 | 27·1 | 26·2 | 22·5 | 20·4 |

*Notes*
(1) In 1975–76 Berisford acquired Tom Martin Metals six weeks prior to the year end. In order to avoid unnecessary complications the above calculation for return on average capital employed excludes such acquisition.
(2) In 1978–79 Berisford acquired Turner Curzon, which was a subsidiary for nine months of that period. Although the impact of Turner Curzon may be more material than in the case of Tom Martin Metals it is considered better to eliminate the Turner Curzon results from the 1978–79 calculation.

3.33. The 1978–79 annual report for the Berisford group gives some indications of the difficulties which it has encountered in considering the current cost accounting proposals set out in ED24 and now superseded by SSAP16. Berisford has made calculations, set out in its 1977–78 and 1978–79 annual reports, of the additional depreciation that would be required under CCA. It has discussed, both with its auditors and the Institute of Chartered Accountants, how the principles of ED24 and subsequently SSAP16 can be applied to a business of the type operated by Berisford. It is clearly aware of the problems caused by the replacement of assets at an inflated cost and the need to maintain the financial operating base of the group in real terms. We are, therefore, unable properly to assess the effect that inflation has had on the results of the group; all of the tables in the chapter relating to Berisford have, therefore, been prepared on historic cost accounting conventions.

3.34. A summary of Berisford's group cash flow for the five years ended 30 September 1979 is set out at Appendix 5.

3.35. We studied in more detail the cash flow for 1978–79 and obtained an analysis of the movement of cash analysed between sterling and other currencies. A summary of this analysis is set out below:

**Source and application of funds—1978–79**

| *Particulars* | *Total* £m | *UK (sterling)* £m | *Overseas (sterling equivalent)* £m |
|---|---|---|---|
| *Sources of funds* | | | |
| Profit for the year retained for use in the business | 35·4 | 28·1 | 7·3 |
| External: disposal of assets | 4·3 | 4·2 | 0·1 |
| | 39·7 | 32·3 | 7·4 |
| Transfers (inter group) | — | [11·7] | 11·7 |
| | 39·7 | 20·6 | 19·1 |
| *Application of funds* | | | |
| Fixed assets | 10·7 | 8·1 | 2·6 |
| Working capital | 66·0 | 74·5 | [8·5] |
| Total re-operation | 76·7 | 82·6 | [5·9] |
| Dividends | 3·7 | 3·7 | — |
| Taxation | 2·8 | 1·8 | 1·0 |
| Goodwill | 6·6 | [0·4] | 7·0 |
| Minority interest | 4·0 | — | 4·0 |
| | 93·8 | 87·7 | 6·1 |
| Positive/[Negative] funds flow subject to: | [54·1] | [67·1] | 13·0 |
| (*a*) currency re-alignment | [ 1·0] | — | [1·0] |
| (*b*) miscellaneous | [ 0·2] | [ 0·3] | 0·1 |
| [Increase]/Decrease in bank borrowings | [55·3] | [67·4] | 12·1 |

3.36. The above table shows that United Kingdom based companies within the group transferred funds amounting to £11·7 million to overseas group companies. This amount almost equals the reduction of overseas bank borrowings of £12·1 million.

3.37. A summarised version of the group's consolidated balance sheet as at 30 September 1979 is set out below and is based on historic cost subject to the revaluation of certain land and buildings.

| *Particulars* | £'000 | £'000 |
|---|---|---|
| Fixed assets: property | 19,564 | |
| plant, motor vehicles & fixtures | 13,813 | |
| | | 33,377 |
| Investments (including associate companies) | | 1,549 |
| Current assets | 326,792 | |
| Less: bank balances | 7,071 | |
| | 319,721 | |
| Current liabilities (excluding bank overdrafts) | 115,774 | 203,947 |
| Tangible capital employed | | 238,873 |
| Financed by: | | |
| Equity: share capital | 22,466 | |
| share premium | 8,127 | |
| reserves | 88,946 | 119,539 |
| Borrowings: loan capital | 137 | |
| bank overdrafts (net) | 127,671 | 127,808 |
| Minority interests in subsidiaries | | 1,270 |
| Dividends payable | | 6,697 |
| Deferred taxation | | 1,911 |
| | | 257,225 |
| Deduct: goodwill (arising on consolidation) | | 18,352 |
| Total, as above | | 238,873 |

The group's financial position at 30 September 1979 includes bank borrowings, which together with the very modest loan capital amounted to almost 107 per cent of shareholders' funds.

3.38. The debt/equity ratio of the group at September 1979 was relatively high when compared with the position that existed in earlier years. The comparative amounts of net borrowings taken as a percentage of equity as at 30 September in each of the six years to 1979 were:

| *1974* | *1975* | *1976* | *1977* | *1978* | *1979* |
|---|---|---|---|---|---|
| 54·9% | 25·7% | 88·0% | 59·7% | 71·0% | 106·9% |

The volatility illustrated in the above table reflects not only the accident of figures taken on a single day by reference to the financial year end but also the fluctuation in financial requirements generated by the main trading activities of the group. The level of the debt/equity ratio in commodity trading can, therefore, appear relatively high when compared with the levels which are normal in other types of business. Substantial positions are taken, sometimes only for days as market opportunities present themselves, both in soft commodities and metals. Liquidations and refinancings take place daily as one market opportunity closes and another opens. A substantial equity base combined with ample bank facilities are, however, essential as prerequisites for such funding operations.

3.39. As mentioned in paragraph 3.30, the latest available published accounts for Berisford relate to the year ended 30 September 1979. The most recent financial information for the year ended 30 September 1980 is the Preliminary Statement of Berisford's results, which was issued on 15 January 1981. This information is restricted to a preliminary profit statement, a summarised version of which is set out below.

| | | *Year ended 30 September 1980* |
|---|---|---|
| *Turnover* | | *£2,452·5 million* |
| | | £'000 |
| Trading profit (after crediting share of profits from associated companies and income from investment) | | 47,906 |
| Interest | | 11,784 |
| Profit before taxation and extraordinary items | | 36,122 |
| Taxation | | 9,119 |
| Profit subject to extraordinary items etc | | 27,003 |
| Deduct: minority interests | [49] | |
| extraordinary items | 711 | 662 |
| Profit available for distribution | | 26,341 |
| Dividends: preference and | | |
| ordinary – paid | 2,908 | |
| ordinary – proposed | 7,252 | 10,160 |
| Retained profits | | 16,181 |

## CHAPTER 4

# British Sugar Corporation Ltd

4.1. The British Sugar Corporation Ltd (British Sugar) is a public company established in 1936 under the provisions of the Sugar Industry (Re-organisation) Act 1936. It has an issued ordinary share capital of £30 million of which 24·17 per cent is held by the Crown—7·5 per cent in the name of the Treasury Solicitor and 16·67 per cent in the name of the Minister of Agriculture, Fisheries and Food.

4.2. The principal activities of the company are the processing of sugar beet and the manufacture and sale of white and raw sugar, dried molassed beet pulp and molasses. It is the only processor of sugar beet in the United Kingdom, handling the crop produced by about 14,000 growers on about 214,000 hectares, mainly on the eastern side of England and in the West Midlands. British Sugar currently supplies about 49 per cent of the country's sugar, its retail brand being known as 'Silver Spoon'.

### History

4.3. The purpose of the 1936 Act was to amalgamate all the existing sugar beet processors under the control of one company. Over the next 20 years the company expanded its capacity to enable it to process supplies from the increasing area of land devoted to sugar beet. Government support for the industry was provided by means of a system of price guarantees for growers and incentive payments for British Sugar.

4.4. These arrangements were consolidated in the Sugar Act 1956 under which a Sugar Board was established to implement obligations to United Kingdom sugar beet growers under the Agriculture Act 1947 and to Commonwealth cane sugar producers under the Commonwealth Sugar Agreement of 1951. However, following the entry of the United Kingdom into the EEC in 1973, most of these national arrangements were swept away and replaced by the EEC sugar regime described in Appendix 2. At the same time, British Sugar embarked on a programme to expand its capacity from 0·95 million to 1·25 million tonnes of sugar per annum, and the target for the area of land to be devoted to sugar beet was increased from 180,000 hectares to 214,000 hectares with an ultimate target of 237,000 hectares. British Sugar has completed its initial programme for expansion of factory capacity, but the target area of beet remains to be achieved (see Table 2.3).

### The Crown shareholding

4.5. When British Sugar was established in 1936, the Treasury took a 15 per cent stake in the share capital, the remainder being held by the public. The Articles of Association include the following provisions:

(*a*) The Government (in practice the Minister of Agriculture, Fisheries and Food acting with the Secretaries of State for Scotland and for Wales with the approval of the Treasury) is empowered to appoint three Directors and to nominate one of them to be the Chairman.

(*b*) Originally the Chairman or, in his absence, the senior Government Director present could require the consideration of any matter raised at a Board meeting to be deferred on the grounds that in his opinion it involved questions of public policy. This was amended in 1964 to allow deferral only when any proposed resolution would, in his opinion, hinder or prevent the fulfilment by the Company of any of its obligations under the Sugar Act 1956. At any subsequent meeting at which the resolution is considered, the Chairman (or Senior Government Director), acting upon the instruction of the Ministers confirmed in writing by the Treasury, has the power to veto the resolution. (This power of deferral and veto was considerably weakened as a result of the European Communities Act 1972, which repealed most sections of the Sugar Act 1956.)

4.6. The 1936 Act prevented the Articles or the Memorandum of Association from being changed without the consent of Ministers, and this was re-stated in the 1956 Act. The European Communities Act 1972 provided for the repeal of this requirement, but no date has yet been fixed for the implementation of the repeal.

4.7. Originally, the Articles of Association gave the Government the power to veto any increase in dividends above a stated percentage. That restriction was removed in 1964 as part of new financial arrangements negotiated between British Sugar and the Ministry of Agriculture, Fisheries and Food. Under these arrangements £5 million of reserves were capitalised, thus increasing the authorised share capital to 10 million £1 ordinary shares. One-half of the capitalised reserves was issued to the Sugar Board, giving them a 25 per cent stake in British Sugar's capital. The remaining £2·5 million was issued to the existing shareholders by way of a one for two bonus issue. Thus in 1964 the Treasury Solicitor held 11·25 per cent and the Sugar Board 25 per cent, the total Crown holding being 36·25 per cent.

4.8. The issued share capital was increased to £15 million in 1977 following a one for two rights issue. The Government sold its rights, so that its holding fell from 36·25 per cent to its present level of 24·17 per cent. A further bonus issue in 1978 raised the company's capital to £30 million, now consisting of 60 million 50p shares.

### Relations with MAFF

4.9. MAFF has the prime responsibility for appointing the Government Directors, including the Chairman. In addition to these formal relationships, MAFF is the sponsoring Department for the food and agriculture industries in which British Sugar is involved. The pre-EEC arrangements vested considerable authority in MAFF, either directly or through the Sugar Board. While many of these arrangements have disappeared, MAFF now represents the United Kingdom in CAP negotiations and, in particular, the Sugar Division of MAFF is closely involved in negotiations on the level of annual sugar price increases and any changes in the EEC sugar regime. It follows that there is a close relationship between British Sugar and MAFF which would continue even if MAFF disposed of its shareholding and completed the repeal of the 1956 Act.

**Principal activities**

4.10. The principal activities of British Sugar may be summarised as follows:

| | *Estimated turnover 1979–80* £ million |
|---|---|
| Sugar manufacturing | 360·0 |
| Animal feed products | 60·0 |
| Molasses (British Sugar Allied Products Ltd) | 6·5 |
| Consultancy and technical assistance (Beet Sugar Developments Ltd) | 0·25 |
| | 426·75 |

4.11. British Sugar is the only processor of sugar beet in the United Kingdom and its most important activity is the manufacture of sugar for domestic and industrial use. The annual production is over 1,100,000 tonnes, representing nearly 50 per cent of total United Kingdom usage in 1979–80. The company purchases sugar beet from growers on the basis of a contract which is negotiated in advance with the NFU. Processing takes place in 17 British Sugar factories which are dispersed through the beet growing areas (see Appendix 6 for details).

4.12. In accordance with the traditional practice of the trade (see paragraphs 2.41–2.47), around 80 per cent of the sugar sold by British Sugar to retailers and industrial users is supplied through merchants, although the price is usually agreed directly between the producer and the final customer. However, a small proportion, amounting to some 40,000 tonnes in 1978–79 and 57,000 tonnes in 1979–80, is sold by British Sugar to merchants on their own account and then re-sold by the merchants at their own price. The remainder (17·4 per cent in 1978–79 and 22·4 per cent in 1979–80) is sold directly by British Sugar to the end user. Until about five years ago British Sugar sold its sugar to merchants at list prices and left them to sell to customers at whatever prices they could negotiate. More recently British Sugar has established the practice of negotiating prices and terms directly with all but the smallest sugar users, even when the sugar is supplied through a merchant. Customers with whom British Sugar negotiates prices directly are referred to as 'key accounts' and the terms to the customer are calculated by reference to the cost of servicing the account including such factors as the amount of sugar ordered over the period of the contract, delivery distance and other factors such as regularity and complexity of deliveries and drop sizes. Key account customers comprise 37 retail and wholesale customers, who together account for 98·5 per cent by volume of the company's sales of domestic and catering sugars, and 265 industrial customers (all those whose total sugar usage from all sources is at least 350 tonnes per annum) who account for 92·5 per cent of industrial sales volume. The steps taken by British Sugar to make direct contact with customers caused some friction with the merchants, but prior to a recent announcement that a group of merchants had made representation to the EEC Commission, British Sugar believed that a reasonable compromise had been reached. British Sugar does not offer financial inducements to customers to deal directly rather than through merchants, and almost all customers, even those who negotiate prices directly with British Sugar, have elected to continue to have supplies administered through merchants. The merchants (of which Berisford is by far the most important) receive a commission on sales, and customers dealing through them have the benefit of their advice on market prices and alternative sources of supply (see paragraphs 2.43–2.47). The table below shows the estimated proportion of British Sugar's sales handled by each of the six main merchants in the years ended 30.9.79 and 30.9.80:

**Proportion of British Sugar's sales volume supplied through merchants**

| *Merchant* | *British Sugar sales by tonnage* 1978–79 | 1979–80 |
|---|---|---|
| | % | % |
| S & W Berisford Ltd | 49·1 | 46·0 |
| James Budgett & Son Ltd | [*Details omitted. See note on page iv.*] | |
| Napier Brown & Co Ltd | | |
| Edward Billington & Sons Ltd | | |
| A S Pigott & Son Ltd | | |
| John Thomas (Sugar Merchants) Ltd | | |
| Other merchants | | |
| TOTAL | 82·6 | 77·6 |

4.13 The beet pulp which remains after the sugar has been extracted is sold as an animal feed. Its nutritional value is increased by the addition of molasses, another by-product of the sugar process. Some 660,000 tonnes of dried molassed beet pulp is produced annually for sale to growers, merchants and compounders, and a further 260,000 tonnes of non-dried pulp is sold in bulk to farmers.

4.14. About 25 per cent of the total production of molasses is sold for various industrial users through British Sugar Allied Products Ltd (BSAP), a subsidiary of British Sugar. The largest users are the yeast and citric acid industries which use it to manufacture ingredients for a wide range of products such as bread, soft drinks and preserves, as well as for pharmaceutical and other allied products. BSAP also participates in the international trade in molasses and in the trading of sugar beet pulp and citrus pulp.

4.15. Overseas consultancy and technical services are provided by British Sugar through its subsidiary, Beet Sugar Developments Ltd (BSD), usually in association with United Kingdom construction companies and other consultancy organisations. BSD can call upon the expertise of the parent company and, being independent of all suppliers of equipment and processing materials, can offer impartial advice on all aspects of beet growing and sugar production. BSD is currently engaged in major assignments in Egypt and New Zealand, and has assignments in a number of other countries.

**Management structure**

4.16. The main company, British Sugar, carries out all of the sugar functions, from purchase of the beet to sale of the sugar, and the animal feed sales. The only active subsidiaries are the molasses trading subsidiary (BSAP) and the consultancy subsidiary (BSD). The Board responsible for overall policy consists of the Chairman, a Chief Executive, an assistant Chief Executive, five Executive Directors and four non-executive Directors, one of whom (in addition to the Chairman) is a Government Director. There is an Operations Committee consisting of the Chief Executive, the Executive Directors and other senior officers who are responsible for the executive management of the business. A chart showing the management structure is at Appendix 7.

4.17. The 17 sugar factories are organised on a regional basis. The Head Office, originally located in London, moved to Peterborough in the early 1970s. The Head Office staff includes about 450 employees, the main functions located there being finance, animal feed sales, engineering, purchasing, computer and management services, agricultural services, public affairs, personnel, industrial relations and company secretariat. Sugar sales are run from a London office with a team of 24 account managers and sales representatives. The transport and distribution functions are located at Peterborough, together with the technical advisory service which advises customers on the use of liquid and bulk sugar.

4.18. The size of British Sugar's work force varies because the factories do not work all the year round. There were 5,558 regular employees in 1979–80, increasing to around 7,800 during the campaign season. The average number of employees during that financial year was 6,191 (see also paragraph 4.29).

**Capital expenditure**

4.19. The main objective of British Sugar's capital investment programme over the last five to seven years has been to expand beet processing capacity so that it is capable of producing 1·25 million tonnes of white sugar in an average year, with the intention of supplying 50 per cent of the United Kingdom market from beet grown and processed in this country. Over the past five years (1975–80) a total of £150 million has been spent in expanding and modernising some of British Sugar's largest factories. At the beginning of the period, four of British Sugar's 17 factories were only capable of producing raw sugar which was sold to Tate & Lyle for further processing. Three of those factories have now been converted to produce white sugar and the total production capacity of the company has increased from 950,000 tonnes WSE (of which a substantial proportion was raw sugar) to 1·25 million tonnes WSE nearly all of which is white sugar. Production of animal feed has increased from 439,000 tonnes to 660,000 tonnes. The introduction of more efficient plant has contributed to a drop in fuel consumption. [*Details omitted. See note on page iv*.].

4.20. British Sugar does not envisage any further expansion of production capacity over the five years 1980 to 1985, but is planning to invest in excess of £25 million per annum (at 1980 prices) for the purpose of improving efficiency, modernising plant, further reducing fuel consumption and reducing operating costs. British Sugar is confident of its ability to finance all the capital expenditure required for these purposes.

**Research and development**

4.21. British Sugar's Research Department is at Norwich, while quality analysis is carried out at the central laboratories in Peterborough. The research done is directed towards improving both the company's production of beet sugar and also the efficient and economic growing of beet. General development work covering all agricultural techniques is undertaken, and the benefit is passed to growers through British Sugar's field staff. British Sugar helps to finance the work of the Sugar Beet Research and Education Committee, set up under the Sugar Industry (Re-organisation) Act 1936, which concentrates principally on improvements in sugar beet husbandry.

**Financial information**

4.22. The British Sugar group consists of a holding company (the principal activities of which are described in paragraph 4.2) and six wholly-owned subsidiary companies, only two of which have any impact on the financial results of the group (paragraph 4.10 refers).

4.23. The Crown shareholding in British Sugar has been described in paragraphs 4.1 and 4.5. All registered shareholdings which represent 5 per cent or more of the issued equity are shown separately below:

| *Authorised, issued and fully paid* | *No of 50p shares* | *£'000* | *% of total* |
|---|---|---|---|
| Crown holding: | | | |
| Ministry of Agriculture, Fisheries and Food (MAFF) | 10,000,000 | 5,000 | 16·67 |
| Solicitor for the office of HM Treasury | 4,500,000 | 2,250 | 7·50 |
| Sub total | 14,500,000 | 7,250 | 24·17 |
| S & W Berisford Ltd | 5,994,000 | 2,997 | 9·99 |
| The Prudential Assurance Co Ltd | 3,789,828 | 1,895 | 6·32 |
| Others | 35,716,172 | 17,858 | 59·52 |
| | 60,000,000 | 30,000 | 100·00 |

4.24. The financial results based on the published accounts for each year under review can be summarised as follows:

| *Particulars* | *1974–75* | *1975–76* | *1976–77* | *1977–78* | *1978–79* | *1979–80* |
|---|---|---|---|---|---|---|
| Return on simple average capital employed (historic cost basis) | 12·1% | 19·1% | 20·2% | 19·2% | 20·8% | 17·8% |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Sales (excluding VAT) | 115,538 | 206,924 | 268,267 | 304,223 | 381,031 | 439,380 |
| Profit before interest and special contributions to employees' pension schemes (historic cost basis) | 11,425 | 18,392 | 23,008 | 29,514 | 39,921 | 49,335 |
| Profit before taxation | 7,648 | 14,312 | 20,468 | 25,576 | 32,408 | 34,167 |
| Profit before interest etc as percentage of sales | 9·9% | 8·9% | 8·6% | 9·7% | 10·5% | 11·2% |
| Profit before taxation as percentage of sales | 6·6% | 6·9% | 7·6% | 8·4% | 8·5% | 7·8% |

British Sugar's results for the six years summarised above are shown in a more detailed form at Appendix 8 together with a statement relating to sources and uses of funds for the same period at Appendix 9. Both these appendices are based on the accounts published for the year to which they relate.

4.25. Over 99 per cent of British Sugar's pre-tax profits are earned from the main activity of processing sugar beet and manufacturing sugar, together with the sale of by-products such as molassed beet pulp and molasses. In 1979–80 British Sugar had a pre-interest profit of just over £49·3 million (historic cost basis). The simple average capital employed during that period was £277·2 million (historic cost basis). The amount includes a surplus on revaluation of Freehold Land and Buildings at 30 September 1980. If such surplus, which amounted to £77·4 million, is excluded the return on capital employed is 20·7 per cent as compared to 17·8 per cent shown above. The method used by British Sugar for calculating capital employed excludes short-term borrowings. If these are included, and taking account of borrowings throughout the year including, *inter alia*, the months of February and March when short-term borrowings are generally at a peak, British Sugar calculates the return on capital employed moves from 17·8 per cent (as shown in paragraph 4.24 above) to 17·4 per cent.

4.26. British Sugar has prepared supplementary statements within the last four published accounts (ie 1976–77 to 1979–80) in which the historic cost results have been recalculated to take account of the effects of inflation (current cost accounting). It is only fairly recently that the accountancy profession has issued a Statement of Standard Accounting Practice relating to current cost accounting (SSAP 16), and the audited 1979–80 CCA results for British Sugar incorporate that standard. This resulted in a CCA profit before taxation of £18·9 million (which is arrived at after deducting net interest of £15·2 million). This in turn gives a CCA profit before interest as a return on simple average capital employed for 1979–80 of 7·8 per cent (British Sugar's calculation for the same period, taking into account short-term borrowings, is 7·3 per cent).

4.27. British Sugar's financial position as at 30 September 1980 (the date for which the most recent accounts are available) is summarised below and is based on historic cost subject to a surplus on revaluation of freehold land and building amounting to £77·4 million.

| *Particulars* | £'000 | £'000 |
|---|---|---|
| Fixed assets: freehold land & buildings | 122,983 | |
| plant and machinery | 125,914 | 248,897 |
| Investments | | 32 |
| Current assets | 113,285 | |
| *Less:* bank balances | 132 | |
| | 113,153 | |
| Current liabilities (excluding bank overdrafts and short-term borrowings) | 23,031 | 90,122 |
| *Capital employed* | | 339,051 |
| Financed by: | | |
| Equity: share capital | 30,000 | |
| reserves (including revaluation reserve) | 217,137 | 247,137 |
| Borrowings: loan capital | 49,800 | |
| bank overdrafts (net) | 29,170 | 78,970 |
| Dividends payable (including ACT) | | 10,841 |
| Deferred credits (Government grants) | | 2,103 |
| *Total as above* | | 339,051 |

4.28. Value Added Statements are also published each year and a summary of these statements relating to the six years ended 1979–80 is set out at Appendix 10.

4.29. The published accounts for 1979–80 state that during the year the average number of weekly employees of the group was 6,191, with a peak employment of 7,859 during the sugar beet processing season. The aggregate remuneration paid by the company in respect of the average numbers employed was £42·1 million. Of the 5,558 regular employees of the group during 1979–80, 91 per cent were engaged in production, 5 per cent in head office and research, 2 per cent in sales and 2 per cent in agricultural activities, respectively. In respect of each average regular employee £71,000 of sales were made, £5,000 of new capital was invested, out of a total capital employed per employee of £48,000. (A comparable figure for total capital employed per employee for United Kingdom food processors is said to be £9,000.)

4.30. British Sugar states that the adoption of new accounting policies during 1979–80 required the 1978–79 results, as affected by the revision of stock valuation, to be restated in the published accounts for 1979–80. For comparative purposes we set out in Appendix 11 a summary of the revised results of 1978–79 together with the 1979–80 results as shown in Appendices 8, 9 and 10.

CHAPTER 5

# Evidence of the principal parties

### The proposed merger

5.1. Berisford said its reasons for wishing to acquire British Sugar could be summarised as follows:

(*a*) to expand the Berisford group by acquiring a business the risks incidental to which are quite different from the risks incidental to Berisford's commodity trading interests, thereby adding a further element of stability to the group's operations;

(*b*) to expand Berisford's manufacturing base by acquiring a business that makes a product that Berisford understands; and most importantly;

(*c*) to acquire a business which, by use of Berisford's existing skills, Berisford can substantially strengthen and improve.

Those reasons, we were told, arose both from the company's general policy and from its judgment of the particular improvements it could bring to the business of British Sugar.

5.2. While expecting that the Managing Director and Chief Executive (Mr Beckett) and possibly the Sales Director might not wish to remain, Berisford did not envisage any changes in the executive management of British Sugar, and its management structure would remain substantially unaltered if the merger took place. British Sugar would continue to have its own board (comprising senior executives of that company and senior executives of Berisford) and would probably include also at least one non-executive director whose primary interest was in agriculture, as a representative of the beet farming community. Berisford's policy would be to treat British Sugar as an autonomous division, responsible for its own activities, and quite separate from the rest of the group. If it gained full control of British Sugar it would be Berisford's intention to fuse the 'nominal merchanting' activities of S & W Berisford (Sugar) Ltd (see paragraph 3.25) with the sales and marketing department of British Sugar. J H Rayner (Mincing Lane) Ltd, which is the Berisford commodity trading subsidiary, would be made responsible for the import of sugar from the rest of the EEC and would trade independently of British Sugar. Berisford believed that British Sugar ideally met the conditions required by the Berisford group in its general approach to expansion by acquisition. Berisford pointed out that it had considerable experience not only in the United Kingdom sugar market but also in the international sugar market and believed that its knowledge, understanding and marketing skills would strengthen and improve the business of British Sugar.

5.3. Berisford told us that, in the autumn of 1979, it had offered to the Government certain undertakings which it was prepared to give in the event of its acquiring the Government's holding in British Sugar. These undertakings, Berisford said, would represent its policy if its bid for more than 50 per cent of British Sugar succeeded.

*Undertakings offered by Berisford:*

(1) British Sugar would remain an independent unit.

(2) Berisford would ensure that British Sugar continued to produce refined sugar from all beet produced in the United Kingdom.

(3) Berisford would continue to market nationally British Sugar's production.

(4) Berisford would ensure that British Sugar acted in the national interest and would continue to keep MAFF fully informed.

(5) Berisford would ensure that British Sugar would at all times act in the interests of its producers, the farmers.

(6) Berisford would ensure that British Sugar would continue to offer all its present services.

(7) Berisford would ensure that British Sugar would consider its responsibilities in the sugar market in the United Kingdom and further ensure that its policies would take into account the position of the cane refiner.

(8) Berisford would ensure that all sugar produced under EEC quotas 'A' and 'B' were first offered to the United Kingdom market.

(9) Berisford would ensure that 'C' sugar would be produced if it were in the interest of the producer (the farmer) and would ensure it was exported as required under EEC regulations.

(10) Berisford would ensure that British Sugar acted at all times in conformity with regulations both national and EEC.

(11) Berisford would ensure that in a national emergency British Sugar would co-operate fully with the appropriate Department or Ministry of HM Government.

(12) Berisford would ensure that its subsidiary company, S & W Berisford (Sugar) Ltd, would cease handling any Tate & Lyle branded sugar if S & W Berisford Ltd declared its bid unconditional, subject only to its legal commitments and subject to an orderly transition so as to enable Tate & Lyle to make proper arrangements for the future.

S & W Berisford Ltd would require HM Government/MAFF to use their best endeavours to obtain the maximum quotas for British Sugar under the EEC sugar regime.

5.4. These assurances were referred to again in a letter dated 1 February 1980 from Berisford's advisers, County Bank Ltd, to the Minister of Agriculture, which said:

> Our clients are prepared to give assurances as to the future policies to be adopted by British Sugar in the event that a general offer is successful that will impede neither access to the United Kingdom market for traditional quantities of raw sugar, nor, so far as is within their power, the continued operation of the three present Tate & Lyle Limited refineries. These assurances should allow:
>
> (i) Her Majesty's Government to guarantee access to the United Kingdom market of raw sugars from the African, Caribbean and Pacific countries;

(ii) Tate & Lyle to continue its refining operations in Liverpool, thereby saving redundancies;

(iii) Tate & Lyle to support the merger as a solution to the problems facing the sugar industry in the United Kingdom;

(iv) Tate & Lyle to withdraw its support for the proposed EEC quota cut for UK sugar beet production of 936,000 tonnes.

Berisford told us that these assurances included a commitment which Berisford was willing to accept in relation to ACP sugar, if the United Kingdom sugar market reached a position where supplies exceeded demand. The company said it would honour its commitment by taking responsibility for exporting any British produced sugar (whether beet or cane) that could not be sold on the home market and was not required for stocks. Secondly, the commitment would preclude Berisford/British Sugar from bidding for cane raws and so depriving Tate & Lyle of the material for its refineries. However, if asked to do so by the Government, Berisford/British Sugar would take up any ACP cane raws which Tate & Lyle might be unable to accept and which the EEC (in practice the United Kingdom) was obliged to take under the terms of the Lomé Agreement. Berisford told us that the undertakings it had offered in relation to ACP sugar were subject to acceptance by the Government. If the Government did not think they were in the national interest, the offer would lapse.

5.5. British Sugar told us that the relationship between British Sugar as a producer and Berisford as a merchant was such that the merger could not easily be classified as either vertical, horizontal or conglomerate, but had features of all three. Since British Sugar was a supplier to the sugar merchants, the merger would involve vertical integration. There would be a measure of horizontal integration since British Sugar was, to some extent, in competition with the sugar merchants. British Sugar made some sales directly to customers without the intervention of a merchant and, conversely, merchants sold sugar which they had purchased in their own right either from continental EEC countries or from the United Kingdom producers. Thirdly, British Sugar said, the businesses of the two companies were very different in character and there was no particular commercial logic in their integration. The capital needs of the companies were quite different. British Sugar was a highly capital intensive company with a continuing need for investment in capital equipment which made a heavy call on its financial resources. Berisford, on the other hand, had negligible fixed assets in comparison with the high turnover of its trading operations and, although like British Sugar it had heavy cash requirements, Berisford's need was for working capital rather than investment. British Sugar's requirements were essentially part of a long-term plan which needed consistent application and careful co-ordination, whereas Berisford's requirements depended on the short-term fluctuations of trading fortunes. Furthermore, although the two companies both dealt in sugar, the commercial skills required for their businesses were quite different and no economies of scale or savings in manpower could be achieved by the merger. There was nothing that Berisford could contribute to the management of British Sugar's business, or to the skills required in dealing with the problems of sugar production. Berisford's skills as a trader in the international market had only the most marginal relevance to British Sugar's business. The merger, British Sugar told us, would give rise to the disadvantages of a conglomerate merger, when an efficient business was absorbed by a company of a wholly different character. In different degrees, British Sugar claimed, all three aspects of the merger (the horizontal and vertical integration and the conglomerate aspect) were likely to operate against the public interest.

5.6. British Sugar referred to reports of criticism of its management by Berisford and the latter's claims that Berisford would inject more commercial flair and expertise. While British Sugar did not deny Berisford's success over the past ten years, it said that a comparison of financial records would show that it had been equally successful in its own, different field. British Sugar's present management team had turned it into an efficient company, which was close to achieving the production and marketing targets set in 1975 to coincide with Government policy. It operated as an entirely integrated business which nevertheless comprised a wide variety of activities. The success and prosperity of the company depended on the co-operation and mutual confidence of those responsible for the various interdependent activities and their commitment to the execution of the company's long-term planning. As part of a diverse group such as Berisford, British Sugar foresaw a risk that its carefully constructed plans might be altered to accommodate short-term requirements in another part of the group. It would have to compete with other divisions for group resources and, indeed, its fortunes and those of the whole United Kingdom beet sugar industry could be prejudiced severely by a downturn in Berisford's other trading operations. Furthermore, a number of the present board members, who unanimously opposed the Berisford bid, had been recruited by Mr Beckett on the understanding that they would be able to play a full part in the policy formation of a major public company. They would seriously consider their willingness to remain, with the reduced status and responsibility of divisional directors in a large Berisford group which had a completely different attitude, style and policy.

**Competition**

5.7. British Sugar told us that the proposed merger of the dominant sugar merchant with the dominant producer would diminish competition and lead to a widening in price differentials between larger and smaller customers unrelated to additional costs or risks, a general upward drift in prices, and the end of the independent merchanting system which customers (especially medium and small industrial users) saw as a valuable buying service. British Sugar pointed out that the encouragement of competition depended on customers having accurate price information on, and access to, different sources of supply. When the managed market came to an end after the United Kingdom's accession to the EEC, and British Sugar began to implement the Government's policy of increasing sales of home-grown sugar, the company was unwilling to leave the merchants controlling the market with the ability to determine how much sugar they would sell from any source and to blunt its own competitive edge by issuing their own 'British Sugar' price lists with an added premium, even though some or all of this premium would be discounted. The company began, therefore, to negotiate prices directly with larger customers, even when they purchased through a merchant. British Sugar claimed that its policy of directly negotiated prices, general publication of its price lists and willingness to sell without the intervention of a merchant had been almost entirely responsible for the competition which existed in the sugar market. For larger customers there was effective price competition between British Sugar on the one hand and Tate & Lyle or imported continental sugar on the other hand, notwithstanding that all purchases might be made through a merchant. For small customers to whom merchants were still able to make their own price, competition was less effective.

5.8. British Sugar said that although the merchant's role had changed since our accession to the EEC, he still performed valuable services for customers. In particular, the merchant had access to several sources of supply: British Sugar, Tate & Lyle and continental imports. Since British Sugar was the price leader in the United Kingdom and Tate & Lyle (because of its low margins) was a price follower, imported continental sugar was the key to price competition. As long as there was a substantial surplus of sugar in the EEC, the continental price could effectively set a ceiling on the price in this country and it was the merchants' commercial interest in selling imports (on which they earned a margin and not merely a handling allowance) which provided competition between the merchants and British Sugar. Berisford was the dominant merchant and had the largest portfolio of customers. Its large spread of customer connections, its skills and financial backing enabled it to offer continental sugar as a third source of supply to many more customers than could any other merchant. This service was particularly important for the medium and small customers who could not obtain imported sugar from a broker or direct from a continental refiner. If the merger took place, Berisford would no longer be able to operate as an independent merchant and British Sugar considered there would be a substantial diminution in competition as a result. Although Berisford had claimed that, after a merger, its imports of continental sugar would be handled by its subsidiary, Rayner, which would operate in competition with British Sugar, such artificially stimulated competition within a group rarely worked. British Sugar did not think the other merchants or Tate & Lyle (selling directly or through the small merchants) would be in a position to offer effective competition to a combined Berisford/British Sugar.

5.9. British Sugar said that the merchants (including Berisford) considered that British Sugar's pricing policy and the publication of its list prices had unnecessarily narrowed the differentials between the prices charged to customers of different sizes, and furthermore that British Sugar prices in general were too low. We were shown copies of correspondence and notes of meetings between British Sugar, Berisford and other merchants in support of this statement. If the merger went ahead British Sugar expected prices to smaller customers would rise. There was likely also to be a general upward movement in prices, because Berisford/British Sugar would be able to strike a balance between sales of home-grown sugar and sales of imports which maximised profits at a higher price level than would be the case if Berisford and British Sugar were in competition. We were told that British Sugar's present policy on prices was essentially an open market policy, with price differentials between products and customers being related to costs. Despite opportunities for increasing prices nearer the EEC ceiling, British Sugar had followed a long-term policy of fixing prices to give a reasonable, but not excessive, rate of return on capital.

5.10. Berisford told us that it played a number of different roles as a sugar merchant in the United Kingdom:

(*a*) The vast majority (about 90 per cent) of the sugar sold by Berisford in the United Kingdom involved only 'nominal merchanting' where Berisford did no more than provide services ancillary to what was *in substance* a sale by the British producer to the customer.

(*b*) Acting as a 'true merchant', Berisford sold a quantity of British-produced sugar to the small customers (the so-called 'back-end' of the trade) with whom refiners did not negotiate directly. These sales accounted for only about 1 per cent of total sales in the British market and were mainly of Tate & Lyle sugar, which Berisford would cease to deal in if it acquired British Sugar.

(*c*) Again acting as a 'true merchant', Berisford sold 'EEC sugar' (including imported sugar and some bought from British producers). These sales accounted for some 2½–5 per cent of total United Kingdom sugar sales.

The table below shows the extent of Berisford's 'nominal merchanting' of sugar from the two United Kingdom producers and its 'true merchanting', both of imported and domestically produced sugar, over the three years up to 30 September 1980:

**'Nominal merchanting' and 'True merchanting' of sugar by Berisford**

| | *'Nominal merchanting'* | | | *'True Merchanting'* | | | | | | | *Total sales* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *BSC* | | *Tate & Lyle* | | *Imports* | | | | |
| | *British Sugar* | *Tate & Lyle* | *Total 'Nominal merchanting'* | *Non-profile* | *Other* | *Non-profile* | *Other* | *EEC* | *Other* | *Total 'True merchanting'* | | |
| *Year ended* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *% of Total sales* | *'000 Tonnes* | *% of Total sales* |
| 30.9.78 | 45·6 | 38·6 | 84·2 | 1·5 | 4·8 | 3·0 | — | 6·4 | 0·1 | 15·8 | 953·4 | 100·0 |
| 30.9.79 | 57·6 | 34·3 | 91·9 | 0·2 | 2·0 | 1·8 | 1·5 | 2·4 | 0·2 | 8·1 | 914·4 | 100·0 |
| 30.9.80 | 54.9 | 37·8 | 92·7 | 0·3 | 2·0 | 1·8 | 1·8 | 0·8 | 0·6 | 7·3 | 872·2 | 100·0 |

5.11. Berisford said that in its nominal merchanting role it provided cost-saving, administrative and information services. It had no market power and its complete insignificance in the price mechanism was clearly shown by the fact that it often did not know, when nominal merchanting was involved, the net price agreed. Thus the fusion of that major part of Berisford's sugar merchanting activities with British Sugar's sales and marketing department would integrate complementary activities at the same economic level of the market rather than at vertically different levels of the market. Even in its true merchanting sales, Berisford said, it had little discretion in setting prices. In the first case (paragraph 5.10(*b*) above) it was in competition with other merchants, a larger proportion of whose business was with the 'back-end' of the trade. Secondly, where 'EEC sugar' was concerned, it could not buy imported sugar for less than the EEC effective support price plus transport costs to the United Kingdom and it could not sell for more than the British-produced sugar price. In practice, profit margins on imported sugar were ordinarily so thin that the opportunity to make a worthwhile profit arose mainly from intelligent anticipation of green pound changes. In summary, Berisford said that the merger would not lead to a market that was less subject to competitive forces, either in respect of price or availability of supplies. In the first case, Berisford's sugar merchanting activities did not give it any significant market power in relation to the setting of prices for sugar in the United Kingdom. Therefore the price-setting power of the combined group would be 'no less and really no more' than the present power of British Sugar. In the second case, Berisford pointed to the undertakings it had already offered to the MAFF (particularly undertakings 2, 3 and 8 in paragraph 5.3) as evidence of its good faith in continuing to supply the home market with domestically produced sugar. Regarding the availability of continental imports, Berisford said that other merchants, brokers and international trade houses were quite capable of expanding their existing 'EEC sugar' business. Equally customers, especially the larger manufacturers, were well able to approach continental producers and trade houses directly.

5.12. Far from the merger leading to a reduction of the role of the independent merchant, Berisford thought that the reverse might be true. Under British Sugar's present policy, Berisford said, independent sugar merchants would almost certainly cease to play any significant role in the British sugar market, at least in relation to British Sugar's products. British Sugar's merchants' allowances had been severely eroded, in real terms, since they were introduced in 1974 and its recent abolition of all published quantity discounts had made it impossible for merchants to play a true merchanting role in selling British Sugar's products. (Although merchants did sometimes buy sugar from both the United Kingdom producers to tender in lieu of 'EEC sugar' that they had contracted to sell.) Berisford told us that, in recent months, merchants had been holding on unprofitably to existing customers in the hope that British Sugar's policy would be reversed. By contrast, if the merger proceeded, the other independent merchants would again have a fair opportunity to compete for business. Berisford provided us with copies of correspondence on this subject between itself and the legal representatives of four of the smaller merchants and drew our particular attention to the following extract from a letter in which Berisford sought to reassure the merchants as to its future intentions:

> More specifically, it seems to us that, assuming that our bid for British Sugar proceeds successfully, the merchants and British Sugar will have together to establish the ways in which they can work together to the mutual advantage of customers, British Sugar and, of course, the merchants themselves. Such an approach implies on the part of British Sugar a review not just of the 'merchant's allowance', to which your letter refers, but a more general review of the most effective ways in which merchants can achieve profitable earnings from the merchanting of British Sugar's products; it further implies a willingness on the part of British Sugar to sell sugar to merchants on terms that fairly recognise the value of the merchant's services and that British Sugar would not impose restrictions on merchants in relation to the resale of BSC sugar; lastly it implies that British Sugar would not 'seek increased dominance for its own sake',

to use the words of your clients' submissions but, on the contrary, would seek to utilise the services of merchants where the merchants had an economically valuable role to play. We have no difficulty with any of those points.

Berisford explained further that it saw the emphasis for merchants shifting from a total dependence on allowances to actual earnings but it did not want, at this time, to put to the merchants a finite proposal. Berisford could, after it acquired British Sugar, work out with the merchants 'what we as British Sugar want them to do and if they do it, what we would be prepared to pay them for their services'. A British Sugar controlled by Berisford would not actively canvass directly the bottom end of the market, which would be a hunting ground for the merchants. It would also be part of British Sugar's policy, to seek to sell its sugar to merchants in substitution for imported sugar from the continent.

5.13. Berisford told us that it believed that British Sugar's abolition of published quantity discounts could not be supported as part of a rational pricing policy. It was cheaper for the producer, in terms of administrative costs, to deal with one merchant than with a large number of small customers. By its present policy British Sugar was greatly reducing the opportunity for merchants to compete for business in circumstances where the total administrative costs per tonne could be less if the business passed through a merchant, who was better organised than a large national supplier to cope with a multiplicity of small orders. In Berisford's view that was against the public interest, if only because it deprived the British economy of possibilities of overall reduction in cost through the working out of the competitive process as between merchants *inter se* and, at the marketing level, as between merchants and British Sugar. Berisford stressed, however, that whatever the rights and wrongs of British Sugar's policy towards merchants, it was not a material consideration in the reasons for Berisford's bid, since the profit on merchanting sugar in the United Kingdom now represented only about 1 per cent of the total profit of the Berisford group.

**Market opportunism**

5.14. British Sugar said that the merger of the dominant United Kingdom producer with Berisford as a trader would:

(*a*) give Berisford greater opportunities to manipulate the market by restricting or exporting United Kingdom production when it could make greater overall profits from imports and thereby raise prices; and

(*b*) allow Berisford to use home-produced sugar as a reserve for trading operations, thereby endangering the United Kingdom's security of supply and self-sufficiency.

5.15. Berisford told us that it could not conceive of any circumstances in which it would either:

(*a*) use imported sugar to supply the British market in substitution for sugar that would otherwise have been produced by British Sugar factories; or

(*b*) use British Sugar production in international trading (whereas an independent British Sugar would not have done so).

Berisford intended to expand British Sugar's operations, not make its productive capacity redundant by importing sugar. Furthermore, Berisford had offered to the MAFF the clearest undertakings on this subject (see paragraph 5.3). However, the combination of Berisford's international trading skills with British Sugar's production activities could enable the combined group to obtain favourable prices for any surplus ('C' sugar) production which, in accordance with EEC regulations, must be sold on international markets. This would be advantageous for the combined group and for farmers and definitely in the public interest.

**Efficiency**

5.16. British Sugar claimed that its present management team had made it an efficient producer, comparable with the most efficient beet sugar producers in the continental EEC and close to achieving the production and marketing targets set in 1975. It provided evidence which it claimed showed its productive efficiency had improved since 1974–75, by relating each of the major resources used in beet sugar processing (raw material, labour and fuel) to the output achieved. The company also supplied comparative indices of costs and argued that it had been the lowest cost producer of the beet sugar industries in each of the EEC member states in the last two years for which particulars were available, 1977–78 and 1978–79. Its relative efficiency could be seen also by comparing its return on capital with those earned by other major sugar producers in the EEC. Although its capacity expansion programme had been completed, British Sugar said it would continue to require substantial annual investment to preserve the value of its assets and maintain efficiency. Its plans included the continuous modernisation of plant, the significant reduction of fuel consumption and further improvements in extraction. British Sugar told us that a new management, inexperienced at running a large manufacturing company, could put its investment programme at risk, thus threatening efficiency, and could damage industrial relations. The cash requirements of an enlarged group would have to be viewed on an overall basis and decisions taken quite properly in the interests of the group as a whole might be to the detriment of one division as against another. At present, British Sugar said, it had good employee relationships and an excellent strike record. These good relations, and the flexibility with which employees were willing to do different jobs, were vital to the efficiency of an operation such as beet sugar production, especially during campaigns when the factories operated continously. British Sugar considered that Berisford's inexperience at industrial relations might well have a damaging effect.

5.17. From the information available, Berisford told us it was far from satisfied that British Sugar was the most efficient producer in the EEC and showed us the results of a comparative examination of sugar beet production in the various member states which it had carried out using published material. Berisford explained that it was difficult for it to comment on British Sugar's technical expertise without access to its management figures but, if the merger went ahead, Berisford would look closely at how the factory performance compared with that of sugar beet producers in various other countries. However, Berisford would make no changes in production methods without having carefully discussed them with all those concerned, which in this case meant British Sugar's management, labour and the farming community, to the extent that the two latter would be affected by any change. This policy had worked well in Berisford's other manufacturing subsidiaries. Berisford would, in fact, closely question all British Sugar's present practices, including its farming, factory and marketing policies, to see what improvements were possible and would seek the best advice available. Among a number of specific areas which Berisford thought should be investigated were the length of the United Kingdom's beet campaign, the requirement that growers should purchase seed from British Sugar and the beet 'topping'[1] requirements.

5.18. Berisford told us that there was no reason to suppose that British Sugar would be any less ready, able and willing to carry through and finance its future investment programme as a result of the merger. Berisford did not know the precise details of British Sugar's recent £150 million expansion programme, but envisaged that the company might not be at the end of its modernisation programme and that considerable investment might still be needed. At the moment Berisford was not in a position to judge whether such investment would incur additional debt—it had no idea of the level of maintainable profits of British Sugar. Berisford could only say that, on a merged balance sheet, Berisford and British Sugar would be better placed to face a capital investment programme than British Sugar on its own.

5.19. Berisford told us that its own industrial relations record was excellent, both in dealings with trade union and non-trade union employees. Although British Sugar had a much larger labour force than Berisford, the latter could not foresee any difficulties with labour relations, as it was not without experience of manufacturing industry. The Berisford group already employed a total of around 2,500 people in processing and manufacturing activities in the United Kingdom. Berisford attributed the success it claimed in the field of industrial relations not only to its attention to pay and proper working conditions but also to its policy of regular communication and close liaison with employees and their representatives, so that any particular problems could be discussed and dealt with as and when they arose.

5.20. Both Berisford and British Sugar provided us with statistics for various measures of efficiency, which were designed to demonstrate British Sugar's performance over a period of time. These measures included such factors as the sugar extraction rate, the volume of white sugar produced per employee, the man-minutes per tonne of beet sliced, the tonnes of fuel per 100 tonnes of sugar, and the value added per employee etc. The figures provided by each company and the conclusions drawn differed because of differences in the periods of time studied and, to some extent, because of variations in the methods of comparison used. We therefore discussed British Sugar's efficiency record in more detail with both companies. Berisford commented that, although British Sugar might be able to demonstrate a steady improvement in performance over the last six years, the beginning of that period (1974–75) represented the low point of the company's performance during

[1] As part of the harvesting procedure, the leaves and a small proportion of the top of the beet are removed by the farmer.

the past decade. However, if the record were considered over the whole of the 1970s and various efficiency factors at the beginning of the period and at the end were compared, the improvement shown was considerably less. British Sugar said that the various statistics had been provided to give us an indication of the company's performance, but it should be borne in mind that they did not provide an absolute measure of efficiency since variations in the quality and size of the beet crop, which were outside the company's control (and therefore unrelated to its efficiency), affected the results. For instance, a poor quality crop had an adverse effect on sugar extraction rates and beet slice rates. In the years 1974–75, 1975–76 and 1976–77 disease and drought had produced a series of poor crops, both in relation to volume and quality, which was almost unprecedented in the sugar beet industry. British Sugar told us it had to do a great deal during that period to sustain the confidence of farmers in sugar beet as a crop. The company also pointed out that it had not been able to expand until after EEC entry. It had commenced its expansion and modernisation programme in 1975–76 and the results of that programme were only becoming evident by the end of the decade.

**Effect on the farming community**

5.21. Berisford drew attention to the fact that British Sugar, seven years after accession to the EEC, had still not achieved production of the full quota of 'A' and 'B' sugar. Berisford believed that the magnitude of the shortfall was attributable, at least in part, to British Sugar's having failed to make it attractive to farmers to devote sufficient area to beet. The company pointed out to us that the other members of the EEC were interested in meeting their 'A' and 'B' quotas in full and had an interest in growing 'C' sugar. Berisford said that there might be sound reasons, perhaps bound up with climate and the greater suitability of the land for other crops, why British farmers had not increased sufficiently the area of beet grown. However, it was a fact that average yields of beet or white sugar per hectare in this country were the lowest of any major producing area on the continent and also more volatile from year to year. While it was understandable that France, for instance, might achieve better yields, other countries with similar climatic conditions to ours (eg Denmark, Sweden and Ireland) were showing higher and more consistent yields.

5.22. Berisford said it regarded it as a matter of high priority to consider, with representatives of the farming community, what changes in British Sugar's contractual arrangements could make it more attractive to farmers to increase their production of sugar beet so as to ensure that (in most below-average years as well as good years) enough beet was grown to enable British Sugar to produce its full 'A' and 'B' quotas. Berisford said it had a lot of ideas, but was not in a position to offer solutions yet, until it had an opportunity of 'being in the driving seat and discussing matters with the experts currently in British Sugar and the farming community'. It stressed that it knew the agricultural community was sensibly conservative and the last thing the company would do would be to seek to impose on growers new-fangled ideas not to their liking. The company believed that the present contract could be altered to provide the individual grower with a better and more understandable assurance of the amount of his production for which he would receive the 'A' price and that for which he would receive the 'B' price. In addition, Berisford's skills on the futures markets should enable the farmer to be offered an improved and perhaps even a guaranteed minimum price for beet that was grown for 'C' sugar for export, whether that beet arose from an exceptionally good harvest or from specific area planted for the purpose. Berisford, stressed that, although it might be able to offer the farmers new opportunities to expand the area planted with beet, it would be for the farmers, after full discussion with Berisford, to decide whether they thought such opportunities were to their advantage. What was quite certain was that Berisford's approach would not deprive the beet grower of *any* advantage or benefit that he enjoyed at present.

5.23. We told Berisford that it had been suggested to us that, if the merger went ahead, Berisford might economise by cutting the numbers of British Sugar's field staff. Certain witnesses had expressed some apprehension on this point. Berisford said that it wanted to see a greater supply line behind British Sugar's factories and would not cut money in areas which would contribute to that object. Berisford considered that the field staff and the research centre were crucial to the whole operation and, in fact, from what the farmers had said in discussions, it seemed likely that more money needed to be spent on research and experimental farms. Berisford had no plans to withdraw field staff or do anything specific but would naturally wish to consider whether improvements could be made.

5.24. British Sugar told us that agriculture generally was suffering from the pressure of fast increasing costs. However, in this context, beet farming was in a healthy state compared with other crops. The company had ensured this, not only by paying prices to farmers well above the minimum guaranteed prices under the EEC regime, but also by demonstrating a close relationship and community of interest with farmers, offering them a security of return going well beyond contractual obligations, together with a consistent dedication to improvement in all aspects of beet agronomy. Such a long-term commitment was not only necessary, but must be clearly demonstrated in order to secure the reciprocal long-term commitment of the farming community.

5.25. British Sugar said that the area of beet grown started to increase when restrictions were lifted after the United Kingdom's entry into the EEC. Almost immediately, however, beet farmers suffered three exceptionally poor crop years in succession, first due to adverse disease conditions and then through droughts. Also, the relative attractiveness of sugar beet to the farmer was adversely affected by the substantial over-valuation of the green pound for several years. As a consequence, the returns on sugar beet compared with competing crops dropped sharply after EEC entry, although there had been a subsequent improvement. The company had taken action to encourage growers to increase area by:

(*a*) paying higher than the minimum beet price;

(*b*) taking the risk on green pound devaluations subsequent to the contract negotiation;

(*c*) not reducing the payment for pulp in line with increased processing costs; and

(*d*) undertaking to pay the grower's share of the 'B' quota levy.

In the light of the adverse conditions which had prevailed, the company regarded the steady increase in the area of beet grown from 1973–74 to 1979–80 as a substantial achievement.

5.26. British Sugar told us that its target production was likely to be achieved by a combination of factors including increased area of beet that was grown, improved yields, greater extraction efficiency, introducing improved varieties of seed, encouraging growers to increase efficiency by reducing harvesting losses and maintaining the level of prices to the grower to offer him, subject to the constraints of the EEC price structure, a return at least comparable with those from other competing crops. The company said that, following a detailed survey it had carried out, a target of 237,000 hectares (a 10 per cent increase) was considered to be consistent with the practical limit for beet growing in the United Kingdom. The Ministry of Agriculture, Fisheries and Food, in their paper 'Possible returns of Agricultural Production in the United Kingdom by 1983', published in February 1979, showed 230,000 hectares committed to beet on the assumption that real prices were maintained.

5.27. British Sugar claimed that Berisford had, by its public utterances, demonstrated its ignorance of beet farming. It had said that farmers would benefit greatly from the merger by receiving higher prices for beet, obtaining greater yields per hectare, and would be encouraged to allocate a greater area of land to beet production. As British Sugar had already pointed out, the scope for increasing the area of beet cultivation was limited. Also the relationship between current production costs and prices made it impossible for British Sugar to offer the farmers substantially increased prices without reducing profits to a level which would endanger the company's investment programme. Each £1 per tonne on the beet price represented several million pounds of profit to British Sugar. As for yields, there was no doubt that they could be increased but there was no evidence to suggest that Berisford could make a significant contribution to this improvement. Berisford's public pronouncements seemed to show an ignorance of the research which British Sugar had sponsored in that area. Improved varieties of seeds, which showed significant improvements in sugar yields, were coming on to British Sugar's lists for future years' crops. The company told us that there was a condition in the growers' contract that beet should not be grown on the same land more than once in every three years. The reason for that was to prevent the spread of disease and pests. Some farmers employed longer rotations, particularly if they wished to grow potatoes in certain years or if the nature of their land required them to introduce grass or some other break crop into the cycle. It might be possible to shorten some of these longer cycles, so that beet was grown more frequently, but it would not necessarily be advantageous in the long-term, from the point of view of pest build-up. We commented on the fact that sugar beet was grown more frequently in France and asked why it was not practicable in this country. British Sugar told us that in certain parts of France where there were large factories it was normal practice to grow beet every alternate year, but that this was possible only with the use of very expensive pesticides. In British Sugar's view it was a short-term expedient which could not be continued indefinitely.

5.28. British Sugar said that negotiation of the beet contract was a complicated operation and the complexity of the contract was due, to a large extent, to the requirements of the CAP. The beet contract for the 1981 crop had been referred for determination[1], which British Sugar considered was partly due to the harsh economic climate. British Sugar explained that it had previously been paying growers 'very considerably over the odds' in order to persuade them to increase beet production after three bad crops in succession and the damaging effect of a substantial over-valuation of the green pound. When British Sugar was negotiating with growers in 1978, there was a 30 per cent over-valuation of the green pound and the company could anticipate that devaluation would occur and so pay high prices to growers. That was not the case today, since the green pound was no longer over-valued, and the company could not afford to pay the increases in line with inflation which the growers were asking. British Sugar emphasised, however, that the price offered was still more favourable than the guaranteed prices laid down by the EEC sugar regime. This present dispute, British Sugar said, in no way detracted from the excellent relationship built up over many years between British Sugar and the farmers.

5.29. British Sugar considered that the proposed merger with a large group, to which British Sugar's interests could not be expected to be overriding, would have a detrimental effect on the carefully nourished relationship between British Sugar and the farmers, with a consequent fall in beet production.

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[1] Determination has since been announced.

## CHAPTER 6

# The views of the sugar merchants and brokers

6.1. Apart from Berisford itself, the principal sugar merchants operating in the United Kingdom are:

James Budgett & Son Ltd;

Napier Brown & Company Ltd;

Edward Billington (Sugar) Ltd;

A S Pigott & Son Ltd; and

John Thomas (Sugar Merchants) Ltd.

The last four made a joint submission concerning the proposed merger and their representatives attended a hearing. James Budgett & Son Ltd, the largest merchant after Berisford, responded separately to our inquiries, as did two smaller merchants, Ragus Sugars of Slough and J B MacDonald & Son Ltd of Dundee. Two commodity brokers, Comfin (Commodity and Finance) Company Ltd and E D & F Man Limited, gave evidence, both in writing and at a hearing and another two brokers submitted their views in writing. The roles of the merchants and brokers in the sugar market are explained in paragraphs 2.41–2.51; this chapter summarises the evidence given to the Commission by merchants and brokers.

### The joint submission

6.2. The joint submission made by four merchants strongly supported the proposed merger between Berisford and British Sugar, subject only to certain safeguards in the form of undertakings from S & W Berisford Ltd. The assurances which the merchants were seeking from Berisford were:

(*a*) that its sugar division would cease to handle Tate & Lyle's products;

(*b*) that under its control British Sugar would revert to a more open system of trading, which would again allow the merchants to operate as an independent and effective force in the United Kingdom market; and

(*c*) that it would cease to operate as a merchant in the traditional sense and would allow its present customers to decide whether they wished to buy direct from British Sugar or to deal through a merchant.

6.3. According to the merchants, the entry of the United Kingdom into the EEC had affected the way in which they operated. The more rigid price structure imposed by the Common Agricultural Policy restricted the areas in which they were able to use their traditional skills as sugar traders (see paragraphs 2.43–2.45) and the merchants found they were unable to make a sufficient margin on British-produced sugar. The practice then developed of the producers making additional payments to the merchants ('the merchants' allowance'), above the standard quantity rebates, to cover the costs incurred by merchants in processing orders.

6.4. The merchants considered that, although the nature of their role in the market had changed in recent years, they still provided important services both to customers in the United Kingdom and to the two producers, British Sugar and Tate & Lyle.

**Services to customers**

6.5. The merchants told us that their services to their customers comprised:

(*a*) independent advice on market conditions;

(*b*) regular access to all sources of supply, including sugar imported from other EEC member states and, to a small extent, from ACP countries;

(*c*) the smooth processing of orders, in accordance with individual customers' requirements, ensuring that full advantage was taken of any special terms which might have been agreed between the producers and the customers; and

(*d*) advice on a variety of matters relating to the Common Agricultural Policy; for example green pound changes, variations in intervention price, and the systems of levies or rebates which might be available for manufacturers exporting products containing significant quantities of sugar.

Claiming the flexibility to respond to customers' needs in a way which was not always possible for the producers, the merchants cited the 1973–74 sugar shortage as an example. Supplies from both United Kingdom producers were restricted, due to circumstances outside their control, but the merchants told us they were able to cover the deficiency with the import of sugar from continental EEC producers.

**Services to producers**

6.6. According to the merchants, the main advantage of the merchanting system to the producers was that, instead of dealing directly with a large number of customers, they were dealing mainly with a small number of merchants who were sugar specialists and who always paid strictly within the agreed credit period even when they had not received payment from their own customers.

**Competition**

6.7. While conceding that their role as price makers had virtually disappeared as far as British Sugar's products were concerned and had been curtailed for Tate & Lyle's products, the merchants claimed that they still had an important part to play in the competitive process since merchants handled the major part of the third source of supply, sugar imported from other EEC member states. They explained that, because of the lack of effective price competition between the two United Kingdom producers, the price level throughout the United Kingdom market was controlled by relatively small amounts of imported continental sugar. The United Kingdom prices therefore included a substantial premium above the EEC intervention price, to reflect the costs of cross-channel transport. To illustrate their point the merchants quoted from the recent House of Lords Select Committee Report on EEC Sugar Policy:[1]

> There is already a lack of price competition in the United Kingdom Market, as the Community's institutional pricing structure means that Tate and Lyle gets too small a margin to enable it to continue refining and selling cane sugar in the United Kingdom unless there is a substantial market premium above intervention, whereas the same pricing structure allows the BSC a very handsome margin (£13 per tonne on the 1978–79 crop as against £2 per tonne for Tate and Lyle).

Thus the merchants contended that the availability of imported sugar, most of which was supplied by merchants, was an important constraint on the level of prices in this country.

**The dispute between the merchants and British Sugar**

6.8. The merchants told us that their relations with British Sugar had been very cordial until around 1975. Latterly, however, the present management of British Sugar appeared to have seen the merchants' independent role and their contacts with continental refiners as a threat to its plans to expand to supply 50 per cent of the United Kingdom market. Consequently, British Sugar had 'attempted to undermine the merchants' independence and to push the merchants into the position of being no more than *del credere* agents'.[2]

6.9. The merchants claimed that British Sugar had been happy to use the services of the merchants when it was first seeking to increase its market share. Then, having used the merchants to acquire new customers, British Sugar began to restrict the terms on which it would allow them to deal in its products. The merchants told us that the main points of contention between themselves and British Sugar were:

(*a*) British Sugar's insistence that all but the smallest sugar users were 'profile' (or key account) customers with whom it negotiated terms directly, refusing to allow the merchants to buy sugar on their own account to supply such customers;

(*b*) British Sugar's refusal to allow the merchants to participate in its direct negotiations of special discounts with key account customers (even when the order was placed through a merchant) and its insistence on paying the discount direct to the user, so that the merchant could not offer a net price;

(*c*) the unrealistic level of the merchants' allowance paid by British Sugar; and

(*d*) a change in British Sugar's terms and conditions of sale which, coupled with its wide publication of its own list price, meant that merchants had great difficulty in maintaining any premiums, even from small customers (see paragraphs 2.52 and 2.53).

[1] House of Lords session 1979–80 44th Report Select Committee on the European Communities 'EEC Sugar Policy' 19 March 1980.

[2] A *del credere* agent is an agent who guarantees, in every case of sale, the payment of the price of the goods sold, when ascertained and due.

In the merchants' view, British Sugar's aim was to bypass them entirely and to encourage customers to deal direct. Customers who did so received an advantage over those dealing through merchants, since the former were charged a net price whereas the latter had to pay the gross price to the merchant and wait for a rebate from the refiner.

6.10. The merchants told us that although British Sugar had eventually agreed to change its policy of openly encouraging customers to deal direct by offering them net prices, it continued to restrict the merchants' ability to trade independently in its sugar products. After several months of negotiations between the two parties, a statement of British Sugar's policy towards the merchants had been agreed on 31 March 1980 (see Appendix 12). The merchants told us that they had accepted the statement 'with very considerable reluctance' as they considered it placed too much emphasis on British Sugar's point of view. However, they 'were prepared to agree in order—they hoped—to ensure stability' and subject to their remuneration being put on a proper footing. The merchants told us that British Sugar had fulfilled the terms of that agreement only in the broadest sense. Many small points of contention had arisen which the merchants claimed undermined their relations with their customers. Furthermore, British Sugar had made no attempt to deal with the question of remuneration.

6.11. In summary, the merchants claimed that the restrictions placed on their activities and the margin they received on British Sugar's products meant that it was virtually uneconomic for them to handle British Sugar's products. On the other hand, they could not afford not to do so because the value of merchants to sugar users depended on their having access to all sources of supply and the ability to provide the full range of sugars. In the merchants' view, the continuation of British Sugar's present policies would lead to the destruction of the present merchanting system which introduced an essential element of competition into the market, not only in terms of price but in terms of the service and advice they could offer to customers. They were satisfied, they told us, that if sugar was to flow freely and without interruption to their customers, the services rendered by the merchants were essential. The producers would not be able to offer impartial advice and continuity through alternative sources of supply and, ultimately, the price of sugar to the end user would rise. Furthermore, the merchants believed that, in view of the ever weaker position of Tate & Lyle, the destruction of the present merchanting system would result in the virtual absence of constraint on the dominant market power of British Sugar. This would leave British Sugar in a position of such pre-eminence in the United Kingdom sugar market that its customers would, for practical purposes, be dependent upon it to an extent which would reduce competition severely and, in consequence, would be against the public interest.

**Effect of the merger**

6.12. However, if control of British Sugar passed to Berisford, subject to the undertakings listed in paragraph 6.2, the four merchants were satisfied that the policy of undermining the merchants' role would be abandoned because Berisford, as the largest merchant, understood the value of the merchanting system. Furthermore, the merchants considered that the public interest would be served by the ability of Berisford, with its proven skills as a sugar trader, to dispose of any surplus production on world markets. In their view 'the merger would produce a dynamic solution to the problems of the United Kingdom sugar market, to the benefit of all those involved in it and of the consumer generally'.

**Evidence of James Budgett & Son Ltd.**

6.13 The evidence submitted by James Budgett & Son Ltd (Budgett) showed that company to be in agreement with the other four principal merchants in its attitude to the proposed merger. Budgett took the view, as had the other merchants, that British Sugar's marketing policies were designed to eliminate merchants from the selling chain. In explaining the importance of the merchant in the sugar market, Budgett made the following points:

(*a*) British Sugar had dominated the United Kingdom sugar market in recent years, both because the cost of transporting sugar across the Channel gave British Sugar a price advantage over continental producers and because the EEC sugar regime was designed to favour domestically produced beet sugar, allowing Tate & Lyle too narrow a margin to enable them to offer effective price competition.

(*b*) Competition for business between the merchants was severe and, for British-refined sugar, took the form of price cutting within the producers' quantity rebate scales, granting additional credit, preparing invoices and paper work in a form which met the customers' requirements and arranging for deliveries to be efficiently handled. Merchants also provided customers with information on market prices.

(*c*) Imported continental sugar, which provided a third source of supply for United Kingdom sugar users, was supplied mainly by the merchants, the viability of whose business depended on their handling large volumes of sugar from all sources. If the merchants were eliminated from the selling chain in the United Kingdom, it was unlikely that there would be any suppliers of imported sugar to the small part of the market which could handle bagged sugar or could accommodate irregular deliveries of bulk sugar.

In Budgett's view there were two reasons why imported sugar could not make any great impact on the United Kingdom market. Firstly, the retail packet trade gave no scope for competition from imports because retail outlets needed frequent deliveries in small quantities and the cost of breaking bulk containers, and subsequent delivery, left imported packets at a substantial price disadvantage. Secondly, most industrial sugar had to be delivered to customers by appointment on a continuous day and night programme and, apart from the extra cost of transport of imported sugar, it was not sufficiently reliable as a regular source of supply.

6.14. Budgett told us that it was confident that the vast majority of its customers would like sugar merchants to remain in business because they provided both a vital element of competition in a market already distorted by the structural dominance of British Sugar and also essential insurance against possible crop failure or industrial action affecting supplies of domestically produced sugar.

6.15. To express its own attitude to the proposed merger, Budgett quoted a document entitled 'The Attitude of the Independent Sugar Merchant to a Possible Takeover by S & W Berisford of British Sugar Corporation', which was issued to the sugar users' trade associations by Budgett and the other independent merchants (excluding Berisford). That document incorporated, in an abbreviated form, the principal arguments in the joint submission made to us by the other four merchants and made it clear that all five merchants were essentially in agreement in their views on the proposed merger.

6.16. In explaining the reasons for their support of the proposed merger, the document which the merchants issued to their customers made the following points:

(*a*) the importance of merchants' specialist advice to customers who required uninterrupted supplies, at competitive prices, of a commodity which could be affected by world events and adverse weather conditions;

(*b*) the merchants' ability to ensure supplies to their customers because of their access to all three sources, the two United Kingdom producers and imported EEC sugar;

(*c*) the important part played by merchants in building up the 'regular relationship' with suppliers on the continent which the recent House of Lords Select Committee Report[1] had considered essential to enable this third source to be effective and capable of expansion if necessary;

(*d*) British Sugar appeared to have seen the merchants as a threat to its expansionist plans and, therefore, attempted to undermine the merchants' traditional role as an independent force in the market;

(*e*) the terms on which sugar merchants were now able to buy British Sugar's products were so restricted and the margin of profit was so small that it was virtually uneconomic for the merchants to handle them but, with British Sugar supplying over 50 per cent of the market, the merchants could not afford *not* to handle its products; and

(*f*) in a market which was affected by so many anti-competitive factors, the sugar merchants introduced a vital element of competition, not only on price but also in terms of the service and advice they could offer to their customers. The document concluded:

> The merchants believe that the policies of the present management of British Sugar will destroy the structure of the United Kingdom sugar market. This will have far reaching effects not only for the merchants themselves, but also for Tate and Lyle and ultimately for all users of sugar.
>
> The merchants believe it to be essential that a dominant company, such as British Sugar now is, should recognise its responsibility

[1] House of Lords session 1979–80 44th Report Select Committee on the European Communities 'EEC Sugar Policy' 19 March 1980.

towards the market as a whole and not seek to misuse the position it enjoys in that market.

The independent sugar merchants believe that S & W Berisford fully understand the implications of what has been happening in recent years and that if control of British Sugar passes to it, it will ensure that British Sugar reverts to an open trading structure for the long-term benefit of the market as a whole.

**Views of the smaller merchants**

6.17. Of the two smaller merchants who submitted views on the proposed merger, one (J B MacDonald & Son Ltd) told us it could not see any possible objection to this merger. The other company (Ragus Sugars) is a sugar manufacturer as well as being a merchant selling the products of Tate & Lyle, British Sugar and continental refiners. Ragus told us that several small merchants, including itself, did not agree with the statement issued by the five larger sugar merchants, since they did not take the view that trade in sugar must carry on in the traditional way. Instead, they considered that the six largest merchants should adapt to the different climate that had prevailed since the United Kingdom joined the EEC, by changing the emphasis of their business. Ragus pointed out that the merchants handled imported continental sugar which was in competition with the products of British Sugar and Tate & Lyle, and therefore they were hardly in a position to complain if the United Kingdom producers were willing to sell directly to end users. In Ragus' view, the current role of the sugar merchant should be to sell continental sugar and to service those accounts who, for several reasons, might wish to use merchants to purchase British Sugar or Tate & Lyle products and were prepared to pay a premium for doing so.

6.18. In stating its opposition to the proposed merger, Ragus pointed to the drastic decline which had occurred in the numbers both of independent merchants and independent producers since the second World War and said that the merging of the largest producer with the largest merchant would create a huge monopoly in the sugar trade. British Sugar was a well-run company which deserved to remain independent and Ragus did not think that the merger would be in the interests of the sugar industry, or the customers of the two companies concerned, or the creation of healthy competition.

**Views of the commodity brokers**

6.19. Most of the brokers who submitted evidence were less concerned and less definite in their views on the effects of the proposed merger than were the merchants.

6.20. Comfin (Commodity and Finance) Company Ltd (Comfin) told us it considered that there would be no industrial logic in the merger of Berisford with British Sugar, since the former was principally a merchant (trading in commodities as a wholesaler) and a commodity broker (buying and selling on behalf of others), and the latter was a major manufacturing company of national importance. British Sugar's position as the monopoly purchaser of sugar beet and supplier of half the United Kingdom's sugar consumption meant that it was of crucial importance to British agriculture, to the farmers and to consumers. Comfin felt that Berisford might find it difficult to reconcile its present interests as a trader, broker and jobber with the wider responsibilities which derived from British Sugar's position.

6.21. Apart from its lack of industrial logic, Comfin considered that such a merger could lead to a loss of competition in the United Kingdom sugar market by reducing the operations of independent sugar merchants and thus the independent provision of marginal supplies of continental sugar which could have a restraining influence on the market. Comfin supported the opinion expressed by four of the principal merchants (see paragraph 6.7) that a relatively small proportion of imported continental sugar could, with the potential of a larger supply, have a disproportionate effect in keeping prices down.

6.22. In Comfin's view, Berisford's control of British Sugar would be likely to lead to a polarisation of the sugar market between the two producer houses. It was reasonable to suppose that Berisford would use principally its own merchanting house for the supply of British Sugar's products and would have to cease supplying Tate & Lyle's products. Tate & Lyle would sell through merchants outside Berisford/British Sugar control and within its own sphere of influence. That would mean the disappearance of the independent merchants at present exercising a third party influence on the market and would thus reduce the competitive effect of imported sugar. Comfin told us that, with the two major houses each controlling half the country's sugar supply, experience suggested that some form of co-operation and rationalisation would emerge.

6.23. Finally Comfin suggested that if a substantial trader such as Berisford had control of a major source of sugar production, it would have a considerable advantage in its transactions on the futures market.

6.24. E D & F Man Limited (brokers who recently acquired the merchant, James Budgett) considered that the merger would be advantageous for the sugar business as a whole and would not be likely to create any problems, either for farmers or for customers. On the question of prices, availability, quality and service to customers, E D & F Man was of the opinion that the only changes to be expected would be beneficial. On the other hand, Berisford's competitors in the merchanting trade might suffer if, as a result of the merger, British Sugar's entire distribution were handled by Berisford. In considering the possible effect of the merger on the public interest, E D & F Man did not think that any identifiable benefits or any adverse effects were likely to ensue. E D & F Man did, however, sound one note of caution in saying that, since sugar was such a politically sensitive commodity in the EEC in general and the United Kingdom in particular, it was vital that British Sugar, under whatever ownership, should show a sense of responsibility in the national interest.

6.25. Two other companies who trade as commodity brokers submitted their views to us in writing. One of these considered that the merger was not likely to affect prices, availability or quality of sugar supplies, but might have an adverse effect on the service to the customer. In time the merged company was bound to become a single producing and merchanting entity, putting other merchants at a trading disadvantage and leaving customers with only one source of British Sugar's products. Some customers might also suffer from a lack of competition from Tate & Lyle products. The company emphasised the fact that sugar was a politically sensitive commodity, both within the entire EEC and in the United Kingdom, and told us that the protection of ACP sugar interests was vital to the country as a whole and to the London sugar traders who provided a service to the world sugar industry. Those traders serviced ACP sugar countries, not only in sales to the United Kingdom but also to buyers in the rest of the world, thus bringing trade (shipping, insurance, finance) and earnings to the City of London. If the merger resulted in any attempt to divert ACP supplies, it would endanger confidence in the London dealers. Finally, the company considered that the merger would not operate in the public interest and could, if it were to proceed, operate against the national interest and lead to unforeseen problems within the finely balanced United Kingdom sugar industry with unforeseen and, possibly, unfortunate results to sectors of industry. The company did not agree with the view held in many sectors of industry, that Berisford's 'trading expertise' would be beneficial to British Sugar.

6.26. The other company was in favour of the proposed merger on the whole. However, the company considered it fundamental to the future of the sugar industries in developing Commonwealth countries that their raw cane sugar should continue to have access to the United Kingdom for refining here. If the merger endangered that outlet for raw cane sugar or made it economically unviable, the company, who acted as brokers for Commonwealth sugar producers, would be bound to oppose it. Having said that, the company believed that the British Government recognised the necessity of preserving both the British beet and cane refining industries and, if that were so, could see no adverse effects to brokers, the developing countries or the public interest arising from the proposed merger. Indeed, the conjunction of the commercial trading expertise of Berisford with the monolithic, industrially and agriculturally orientated British Sugar might represent a useful stimulus to the United Kingdom sugar industry.

CHAPTER 7

# The views of the National Farmers' Union

7.1. In this chapter we summarise the evidence received from the NFU, representing the 14,000 beet sugar growers in England and Wales. Evidence was given in writing and at a hearing at which the NFU representation included their President, the Hon R C Butler and the Chairman and Vice-Chairman of their Sugar Beet Committee.

**Sugar beet production in the United Kingdom**

7.2. The NFU emphasised that the structure of the United Kingdom sugar market was radically changed by accession to the EEC. Although imports of Commonwealth raws continued to flow into the United Kingdom, for the first time since 1914 imports of beet sugar from Europe could enter easily and the United Kingdom beet sugar industry was allowed to expand relatively freely. The NFU drew attention to the White Paper 'Food from our own Resources' published in 1975, in which the Government envisaged that half the country's sugar requirement would be produced from home grown beet. They explained that growers had responded to this encouragement by increasing their planting, leading to the record sugar beet crop of 1979 of 1·154 million tonnes of beet sugar, which amounted to 45 per cent of United Kingdom consumption.

7.3. The NFU supported the policy of growing sufficient sugar beet to produce 50 per cent of the total quantity of sugar consumed, which they explained was based on the following grounds:

(*a*) It is regarded as important, from a military point of view, that the country should have the minimum reliance on imported foods.

(*b*) There is scope for a considerable saving on expenditure on imports and a consequent improvement in the balance of payments by maximising United Kingdom production of the agricultural products for which our land and climate are suitable.

(*c*) World production of practically every agricultural product can fluctuate widely, so that the greatest possible self-sufficiency in any product helps to protect the consumer against the worst effects of shortages.

(*d*) Increasing sugar beet production creates jobs and promotes the general economic well-being of rural areas. Beet production is more labour intensive than other crops and also requires special machinery and equipment. This creates employment on the farm and in industries ancillary to sugar, particularly sugar beet processing and agricultural machinery production.

(*e*) A thriving British sugar industry helps to promote exports by providing a sound home base for exports of agricultural machinery and equipment, as well as the export of beet processing expertise.

(*f*) As well as being an important break crop in rotation with cereals, sugar beet is also a cash crop. Over extensive areas, particularly in eastern England, sugar beet has become the break from cereals on which the whole crop rotation is based. On many farms much of the equipment and the size of the labour force is dictated by the requirements of sugar husbandry and it could be said that, in those areas, the whole pattern of rural life depends greatly on sugar beet.

7.4. The NFU explained that, with encouragement from the EEC, certain protein crops and oil seed crops would be alternatives to sugar beet as a break crop, although they did have some drawbacks. The NFU pointed out that while it was possible to farm on a system of continuous cereals there was considerable danger in this course. For example, in certain weather conditions spraying might not be fully effective, which could lead to a carrying over of cereal diseases. That was not so likely to happen if a sugar beet crop were inserted into the rotation.

7.5. Despite its advantages as a break crop, the NFU explained that sugar beet was a high risk product for two reasons:

(i) the total input costs were well above those of arable crops in general; and

(ii) the fluctuation in the return from sugar beet was greater than average in the arable sector, due to possible variations in both yield and sugar content resulting from differing weather conditions.

In view of those risks the maximum reasonable level of sugar beet production could be maintained only if producers were assured of good returns from a stable market and could have confidence in the long-term stability of the entire beet sugar industry in this country. The NFU told us that both acreage and output of beet had been rising since the United Kingdom joined the EEC but, having regard to the use of beet as a break crop, the quality of the land, the positions of factories and the current price in relation to other crops, further increases were unlikely to be very great.

7.6. The NFU told us that, in order to minimise the risk from the growers' point of view, the best way of ensuring stability in the market and at least an adequate return would be to fix the 'A' quota under the EEC system at the optimum level of beet sugar production. Under the terms of the revised European Commission proposals the United Kingdom 'A' quota would be maintained at existing levels. The NFU welcomed this development but could not accept the proposed 'B' quota of 52,000 tonnes, which was only 5 per cent of the 'A' quota and was clearly not sufficient to provide an adequate safety margin in those years when the harvest was good. It was the view of the NFU that future levels of production in the United Kingdom would not result in large amounts of sugar available for export. They therefore contended that it would be detrimental to the United Kingdom beet sugar industry to attempt to increase the production of sugar for export without having due regard to the need to maintain production of United Kingdom quota sugar at adequate levels of profitability for growers.

7.7. The NFU explained that the farming community was naturally conservative and did not view violent change with favour. In general, farmers had a lack of understanding, and consequent mistrust, of commodity trading and the world sugar markets which suggested widely fluctuating, and consequently insecure, returns. Farmers had considerable trading loyalty to those who had served them well and they believed that the British Sugar Corporation had served them well up to now. It was accepted that Berisford, or any other new owner of British Sugar, might serve the farmers equally well, but that would have to be proved. Initial limited contacts with senior management of Berisford suggested that they were sensitive to the needs of the growers and the NFU had received general reassurance from them about Berisford's intentions.

7.8. Nevertheless, the NFU explained that they were particularly concerned that if Berisford were to control British Sugar, its existing activities in the sugar markets and the expressed intention in relation to the exporting of United Kingdom sugar might lead to a break in the previously united approach by British Sugar and the NFU in relation to the EEC quotas, and this was a major concern in relation to the merger.

**Import of ACP sugar**

7.9. The NFU accepted the economic and political need for ACP sugars to be brought to the EEC but believed that the amounts should be reduced gradually whenever producing countries failed to fulfil their quotas. If the import of ACP sugar ended it would not be possible to make up the loss wholly from United Kingdom resources but there should be no difficulty in meeting the additional requirements from the rest of the European Community.

**Relationship with British Sugar**

7.10. The NFU told us that their relationship with British Sugar had been generally good. There were sometimes issues on which they disagreed or policy matters on which they adopted different approaches and from time to time acts or omissions of the Corporation gave rise to complaint from the growers. In general British Sugar was sensitive to growers' attitudes and knowledgeable on agricultural matters and made considerable efforts to work with beet growers and their representatives. On major policy issues the two organisations had usually been in close accord and they co-operated closely on research and education. There were frequent and regular contacts at all levels which, in the view of the NFU, had made a major contribution to the development of beet sugar production in this country by engendering confidence between growers and processors. The NFU were concerned that the merger might damage this relationship, particularly if it led to a fundamentally different management approach by British Sugar which might damage the confidence of growers and could lead to a significant drop in the area of beet grown.

7.11. We asked the NFU about the state of current disputes with British Sugar and they told us that there were two areas of difficulty. One was a particular complaint of certain growers, relating to the 1978 crop. The other was the failure to agree terms for the crop year 1981–82. This was the first occasion on which there had been a failure to agree a price and the NFU considered the dispute was likely to go to determination. (Shortly after the hearing with the NFU the Minister of Agriculture announced the appointment of Professor Dennis Britton, professor of agricultural economics at Wye College London, to determine the price of beet for 1981–82.)[1]

7.12. The NFU accepted that the contract between the individual grower and British Sugar was complicated, although it had been simplified to some extent and each grower received with his copy of the contract a letter explaining the financial terms. They had heard from Berisford that it considered the contract to be unnecessarily complicated and that, if it controlled British Sugar, it would like to make the terms simpler. The NFU saw merit in this suggestion.

7.13. Berisford had raised the possibility of dispensing with the obligation on the individual grower to buy beet seed from British Sugar, but the NFU did not consider that this obligation gave rise to any discontent. Growers purchased the seed which was agreed between them and the sugar factory as being the most useful seed to use, and it was possible for any grower who wished to experiment to purchase seed from outside the list, by agreement with British Sugar.

**Government involvement in the United Kingdom beet sugar industry**

7.14. The NFU drew particular attention to the close involvement of the Government over many years in the United Kingdom sugar beet industry, which they considered had given it a large degree of influence over British Sugar. In particular, they suggested that the Sugar Act 1956, until repeal of most of its provisions by the European Communities Act 1972, had provided a firm measure of ministerial control. They believed that the present Government involvement as a shareholder of British Sugar and the Government's remaining powers under the Sugar Act 1956 (albeit subject to those powers being liable to be repealed under the provisions of the European Communities Act) provided essential checks and balances in a system in which the farmer was selling to a single buyer. While they accepted that the operations of British Sugar were carried out without any interference from the Government, that was not to say that the Government's present special rights and powers of intervention (via their shareholding and directorships etc) did not have a strong influence, amounting to a power of veto, in keeping British Sugar's operations centred on the processing of sugar from sugar beet grown in the United Kingdom. The NFU considered that the Government had an obligation to retain that influence.

7.15. The NFU were particularly concerned that the repeal of the Government's powers under the Sugar Act to veto any changes in the Memorandum and Articles of Association of British Sugar would allow a change in those articles which, they believed, at the present time restricted the degree to which British Sugar might diversify from its main business as a beet sugar producer.

[1] Determination has since been announced.

As part of their continuing activities to safeguard the legitimate long-term interests of the beet growers, in relation to the possible consequences of the proposed merger, the NFU told us that they had pressed, and would continue to press, the Government to retain their shareholding and their residual powers under the Sugar Act. If, however, the Government were to sell British Sugar shares, the NFU would strongly urge that they should retain at least a proportion of their present shareholding and, in particular, their powers of intervention, the need for which would be even greater if the proposed merger went ahead and British Sugar was no longer an independent company with a Stock Exchange quotation but a subsidiary controlled by Berisford and without a separate Stock Exchange quotation.

7.16. We asked the NFU about press reports that they had recently approached beet sugar farmers, asking them whether they would be prepared to subscribe to shares in British Sugar. The NFU confirmed that they had written to all producers currently growing sugar beet to explain the facts relating to the bid and the possible consequences of the proposed merger. They had also asked whether the producers would be prepared to subscribe to a joint financial stake in British Sugar, with the object of acquiring the Government's shareholding in the company if the Government did decide to sell its shares.

**The NFU position on the merger**

7.17. Summarising their position on the merger the NFU told us that, as the representative organisation for sugar beet growers, they would oppose the proposed merger if it:

(*a*) led to any reduction in the Government's involvement in the United Kingdom sugar beet industry, especially in their present power to prevent diversification by British Sugar away from its primary obligation as the sole processor of United Kingdom sugar beet;

(*b*) endangered in any way the prospect of the United Kingdom continuing to produce beet up to 50 per cent of its sugar requirement;

(*c*) was likely to lead to increased speculation in sugar at growers' risk or threaten the stability of the market in any other way; or

(*d*) could undermine the confidence of the growers, who by various Government measures over a long period, had been encouraged to increase sugar beet production but, at the same time, had been put in the position of being dependent on just one monopoly buyer.

7.18. The NFU further represented very strongly to us that, because it appeared likely that a decision to permit the merger to proceed would be followed by Berisford renewing its bid and the Government accepting it (subject of course to the terms), we should, in the public interest, consider attaching conditions to any approval of the bid. These conditions would require the bidder to accept binding arrangements having the effect that the Government's present powers of intervention should continue, but not dependent on the Government continuing to hold shares in British Sugar. In other words, if Berisford were permitted to make a bid which was wholly or partly successful, whether or not the Government's shares were acquired, Berisford would enter into binding and continuing arrangements under which the Government would retain their present rights of intervention. The NFU pointed out that, if the bid succeeded, British Sugar would become a subsidiary totally controlled by Berisford. In short, it was the firm view of the NFU that, as the Government were the means of creating British Sugar's processing monopoly, the public interest required the Government to retain powers to ensure that British Sugar continued to perform the processing function in the interests of the public, of the Government's sugar production policy, and of the 14,000 growers.

## CHAPTER 8

# The views of other parties

8.1. In this chapter we summarise the evidence received from other interested parties.

**Trade unions**

8.2. The Amalgamated Union of Engineering Workers (AUEW) considered that the merger would not be in the interests of their members and would do little to alleviate the problems of the industry. Their main objections were as follows:

(*a*) It was unlikely that Berisford, as a commodity trader, would have the same interest as a manufacturing organisation such as British Sugar in maintaining job security or in moderating the price of sugar.

(*b*) Although British Sugar produced less than 50 per cent of home sugar requirements at present, it provided a measure of stability through the guarantees paid to farmers. The interests of farmers and of the community in general would not be served if the existing arrangements were taken over by an organisation having little expertise in the manufacturing techniques.

(*c*) Berisford would be likely to be more concerned with the 'C' allocation of sugar for the free market than with the overall allocation which was giving concern to British Sugar and to the AUEW's members at the present time.

(*d*) The merger, if allowed, would probably result in an attempt by Berisford to rationalise and restrict sugar production in order to create higher values, leading to the closure of a number of sugar factories and to further unemployment.

(*e*) British Sugar had invested heavily over the last five years to make the industry more efficient. It was unlikely that Berisford would show the same interest or ability.

8.3. The Transport and General Workers' Union (TGWU) also expressed opposition to the merger, on the following grounds:

(*a*) There was an inherent contradiction between the objectives of maintaining employment and efficient production in the industry and those of a company such as Berisford, which was primarily interested in the trading of commodities in international markets. The interests of those seeking profit from international commodity trade might, in certain circumstances, be opposed to the highest attainable levels of employment and output in the United Kingdom processing industry.

(*b*) To concentrate control of a major sugar producer in a company which already handled a substantial proportion of Tate & Lyle's output would seem to present a danger to the interests of the consumer.

(c) The merger might reduce or undermine the Government's stake in the British sugar industry. As the beet sugar industry depended upon long-term investment and a stable relationship with the agricultural producers, ownership should be independent of commercial interests which could be contrary to the longer term needs of the British food industry and the economy. For this reason, the TGWU would wish to see the Government's interest retained or even expanded.

8.4. Both the AUEW and the TGWU said that industrial relations in the beet sugar industry were good, and expressed concern that they might be impaired if the merger took place.

8.5. The National Union of Agricultural and Allied Workers (NUAAW) also opposed the merger. They made the following points:

(a) The marketing approach of Berisford, appropriately for a commodity trader, was opportunistic, looking for a quick turn, playing off one market against another, and seeking to profit from 'technical positions' in supply and demand. Such an approach would be quite inappropriate for British Sugar.

(b) Berisford had an interest in oil seed and might see advantage in encouraging farmers to switch production away from sugar beet. While this might bring some farmers higher margins in the short term, it would be seriously detrimental to the interests of workers in sugar beet factories dependent on consistent and increasing beet crops.

(c) Stability of earnings for British Sugar's workforce could only be achieved by securing maximum quotas for 'A' and 'B' sugar within the CAP regime, not by short-term trading in world markets which were notoriously volatile.

8.6. The General and Municipal Workers' Union told us that after a full consultation with its sections involved in the sugar and confectionery industry it could see no reason to take any side either for or against the merger.

**Trade associations**

8.7. The Cake and Biscuit Alliance Ltd, the Cocoa, Chocolate and Confectionery Alliance and the Food Manufacturers' Federation Inc made a joint submission concerning the proposed merger and attended a hearing. As their members used over 1 million tonnes of sugar each year as an ingredient in the foodstuffs they manufactured, the associations were vitally interested in maintaining an adequate volume of supply of sugar to the British market at competitive prices. They believed that the merchants played an important part in maintaining competition, and feared that the existing policies of British Sugar could lead to a severe curtailment of the merchant's role and to an increase in the monopoly characteristics of the sugar market.

8.8. While recognising that there might be disadvantages as well as possible advantages to sugar users if the proposed merger took place, the associations had no objections to it on monopoly grounds so long as adequate assurances were given that:

(a) access to supplies from British Sugar, and the terms on which such access was available, would be such as to enable independent sugar merchants and traders to continue and develop their traditional role in the provision of sugar to United Kingdom users; and

(b) in the event of the merger taking place, Berisford would cease to handle sales of Tate & Lyle sugar.

The first of those assurances was considered important whether or not the merger took place.

8.9. The National Food and Drink Federation expressed concern regarding any intensification of the near monopolistic situation in the sugar market. They submitted that the element of competition had already disappeared almost completely, and retailers virtually had to accept the sugar suppliers' terms without any alternative being available.

8.10. The Ice Cream Alliance was opposed to the merger on the grounds that small sugar users, particularly those in the north of England, would suffer under Berisford's discriminatory pricing policy which was dependent upon quantity and location. British Sugar, on the other hand, operated a fixed delivery price throughout the United Kingdom.

8.11. The Scottish Grocers' Federation expressed opposition on general grounds, believing that mergers of this kind were detrimental to the ultimate customers of the companies concerned.

**Sugar users**

8.12. We received the views of 19 distributors and 85 sugar users in the food, confectionery and pharmaceutical industries. Thirteen of the distributors and 58 of the users were approached as a small representative sample of British Sugar's customers and, in addition to their views on the merger, furnished some information on the pattern of their sugar purchases which is summarised in paragraph 8.20.

**Distributors**

8.13. The 19 distributors included large national multiple retailers, cash and carry wholesalers and voluntary groups. Twelve expressed opposition to the merger believing that it would reduce competition and operate against their interests. It was also suggested that Berisford would be more interested in bulk sales of sugar to manufacturers and less concerned than British Sugar to cater for the retail market. Six distributors had no comments or expressed views that were broadly neutral and one multiple retailer was in favour of the merger, believing that Berisford would introduce different marketing methods which would benefit the housewife. Of the 13 distributor customers of British Sugar, five told us they purchased sugar through merchants and seven told us that they also purchased sugar from Tate & Lyle. None was currently buying sugar from the rest of the EEC.

**Sugar users in manufacturing industry**

8.14. For the purpose of this summary we distinguish between 11 large users (over 20,000 tonnes of sugar per annum), 33 medium-sized users (between 1,000 and 20,000 tonnes per annum) and 41 small users (less than 1,000 tonnes per annum).

(*a*) *Large manufacturing users*

8.15. Of the 11 large users whose views we received, five fully supported the views of the three trade associations which are expressed in paragraphs 8.7 and 8.8, one was in favour of the merger, three expressed views that were broadly neutral and two were against. One of the users who generally supported the trade associations views considered that, if the merger took place, Berisford should be asked for an undertaking to cease handling sugar from the rest of the EEC as well as Tate & Lyle's sugar.

8.16. Of the two users who opposed the merger, one feared that sugar prices would increase as British Sugar and Tate & Lyle sought to raise their profit margins. The other argued that, if Berisford ceased to handle sales of Tate & Lyle sugar, it would be likely to induce customers to buy more from British Sugar, with adverse effects on Tate & Lyle, and that any further weakening of Tate & Lyle's position could affect the supply of speciality and liquid sugars produced from cane which were required in some industries.

8.17. The user who supported the merger suggested that it would:

(*a*) benefit the merchants by safeguarding their access to supplies from British Sugar;

(*b*) facilitate the disposal of surpluses for export. Since Berisford would be in a stronger position to exploit export opportunities, United Kingdom farmers could benefit from increased acreage requirements;

(*c*) benefit consumers in times of shortage because Berisford would be better able to secure continental sugar;

(*d*) result in more consistent pricing because British Sugar's outlets would no longer be restricted to the United Kingdom market irrespective of the size of the crop;

(*e*) stimulate British Sugar to become more efficient in order to compete in export markets; and

(*f*) reduce the pressure on Tate & Lyle to close its Liverpool factory.

It was suggested, however, that assurances should be sought from Berisford that independent sugar merchants would have access to supplies from British Sugar on acceptable terms, and that there would be continuity of supply to customers during years when there was a bad beet harvest. The Government should consider the effect of the EEC sugar régime on Tate & Lyle, and look for ways and means of enabling that company to compete on a more equal basis.

(*b*) *Medium sized users*

8.18. Of the 33 medium sized sugar users whose views were received, 20 were opposed to the merger, nine expressed no comment or had views which were broadly neutral, or endorsed the views of the Trade Associations in paragraphs 8.7 and 8.8, and four were in favour of the merger. One of those who took a favourable view considered that Berisford would add an aggressive professionalism to British Sugar's sales activity and that price levels would be more commercially calculated.

(*c*) *Small users*

8.19. Twenty-nine of the 41 small users expressed opposition to the merger, fearing that it would reduce competition and result in higher prices and a decline in the standard of service. It was suggested that smaller customers in particular would suffer because Berisford, unlike British Sugar, operated a discriminatory marketing policy. Eleven of the small users had no comments or expressed views that were neutral and one small user was in favour of the merger.

**Result of survey of British Sugar's manufacturing customers**

8.20. Other particulars derived from the replies received from customers of British Sugar are summarised in the following table:

| | *Use of merchants* | | | | |
|---|---|---|---|---|---|
| | *1 merchant* | *2 or more merchants* | *Also customers of Tate & Lyle* | *Purchasers of sugar from other EEC countries* | *Purchasers of sugar of unspecified origin from merchants* |
| Large (2) | — | 2 | 2 | 2 | — |
| Medium (22) | 4 | 14 | 16 | 9 | 3 |
| Small (34) | 20 | 10 | 16 | 3 | 10 |

**Warehousing, packaging and transport companies**

8.21. Representations were received from eight companies engaged in warehousing, packaging and physical distribution, all of whom expressed concern about the merger. Their main objection was that, as a commodity dealer, Berisford would be primarily interested in making short-term gains at the expense of the long-term interests of British Sugar and the beet growers. They feared that the existing pattern of transport and distribution would be disturbed, and that Berisford's policies would lead to increased exports of sugar offset by increased imports from the continent, and to reduced employment for hauliers within the United Kingdom.

8.22. One company urged that, if the Government wished to dispose of its shareholding in British Sugar, it should be offered to the farming community before any merger went ahead. This would provide some safeguard for the farmers who were heavily committed to the growing of beet.

**Tate & Lyle Ltd**

8.23. Tate & Lyle did not feel able to comment upon the ownership of its principal competitor in the United Kingdom sugar market, but made the following points:

(*a*) If the merger took place, it would not be right for Tate & Lyle sugar to be merchanted through a company which had control of Tate & Lyle's main competitor. Tate & Lyle was glad to learn that Berisford was of the same opinion. Customers of Berisford who required Tate & Lyle sugar would be able to obtain it through other merchants or direct from Tate & Lyle.

(*b*) Berisford's considerable expertise in sugar trading would facilitate the disposal overseas of any surpluses of beet sugar that might arise from time to time in the future.

**Other evidence**

8.24. We requested a statement of the views of the Minister of Agriculture, Fisheries and Food on the proposed merger. The statement is reproduced below:

> The Minister of Agriculture, Fisheries and Food is responsible for the general prosperity of the United Kingdom sugar industry and for the carrying out of the Community's obligations to ACP sugar producers under the Lomé Convention in so far as they affect the United Kingdom. The negotiations on the new Community sugar regime, which will take place during the rest of 1980, will have a considerable effect on the future operation and well-being of the British Sugar Corporation. The Minister's aim is to secure an agreement which will provide for the further development of the British sugar industry. He is also concerned to see that a reasonable balance between supply and demand is maintained in the United Kingdom market. For these reasons the Minister will continue to need the active co-operation of the British Sugar Corporation.
>
> The Minister is also, together with the Treasury, a major shareholder in the Corporation. It is the Government's policy to reduce the involvement of the State in industry: it is not the Government's intention to retain its holdings in British Sugar indefinitely but no decision has yet been taken about how or when the Government shares would be sold.
>
> The Minister's view is that the bid by S & W Berisford Ltd for control of the Corporation does raise important questions of competition which require investigation by the Monopolies and Mergers Commission. He does not consider that, at this stage, he should express an opinion on the nature or the details of the bid.

This statement was supported by the Treasury when we sought their views.

CHAPTER 9

# Conclusions

### The merger situation

9.1. Under the terms of the reference and the provisions of sections 69 and 75 of the Fair Trading Act 1973 we are required to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation in which section 64(1)(*b*) will be satisfied.

9.2. The assets of British Sugar exceed £15 million (see paragraph 4.27). The condition set out in section 64(1)(*b*) is therefore satisfied. The reference requires us to exclude from consideration section 64(1)(*a*).

9.3. The offer made by Berisford for the share capital of British Sugar lapsed on the reference to the Commission. It is clear, however, that unless it is prohibited from doing so under the Act, Berisford is likely to renew the offer.

9.4. Arrangements are therefore in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation. In accordance with section 75(2) we therefore proceed as if these arrangements had been made.

### The effect of the proposed merger on competition

9.5. Under the accumulation of controls, quotas and guarantees, no great scope for competition remains in the sugar market in the EEC. Competition is particularly limited in Great Britain, because domestic production is entirely in the hands of two companies, one of which is much weaker in the market than the other. Tate & Lyle (the weaker company) has difficulty in matching British Sugar's prices, because there is excess capacity at Tate & Lyle's refineries and the refining margin fixed under the CAP places a cane refiner at a disadvantage in relation to a beet processor; the difficulty is increased by the price paid by Tate & Lyle for raw cane, which is somewhat higher than the minimum price provided by the Lomé Convention.

9.6. There are, however, two kinds of competition which can reach and influence the British market. The first is that of sugar produced in continental countries of the EEC. If the price of sugar produced in Great Britain rises above the intervention price under the CAP plus the storage levy (cf Appendix 2, paragraph 16) plus the cost of transport to this country, it can be undercut by continental sugar. Actual imports amount at present to less than 10 per cent of total British consumption, but all those who gave us information about the market agreed that the existence in some continental countries of the EEC of surplus sugar available for import into this country was a most important factor limiting the price of sugar in Great Britain. The second kind of competition is that of sugar bought by merchants on their own account from Tate & Lyle or British Sugar and resold (ie the subject of what Berisford has called 'true merchanting'). This amounts to approximately 5 per cent of total United Kingdom production (see paragraphs 2.55 and 2.56). From time to time merchants can offer such sugar at prices which may be lower than those of Tate & Lyle and British Sugar.

9.7. In these circumstances, any development which would reduce still further competition already so severely limited would be undesirable. It has been submitted to us that the proposed merger would in fact reduce each of the two kinds of competition described in paragraph 9.6.

9.8. As to the first kind, the argument was that the merger would constitute a threat to competition because it would mean the loss of Berisford as an independent importer of EEC sugar, and there might be no equivalent substitute to take Berisford's place. Berisford itself told us that the importing of EEC sugar by the Berisford group would continue: responsibility for the sale of this sugar would be transferred to J H Rayner (Mincing Lane) Ltd (another company of the group), which would be free to compete with what would then be the group's 'British Sugar' division. It is hard to be sure how this arrangement would develop. Any success of Rayner in selling imported sugar might be at the expense of the 'British Sugar' division, which the group would hope to be one of its major sources of profit. Whatever the present intentions of Berisford may be, this must raise some doubt whether in the long run Rayner's activities of importing and selling sugar from the EEC would be entirely independent and uninhibited.

9.9. For other reasons, however, we feel there need be no apprehension of reduced imports of EEC sugar resulting from the merger. In the first place, total British imports have declined due to improved beet harvests and Berisford's share of these imports has been greatly reduced. It amounted to 22·3 per cent of the total imports in 1977–78, 16·8 per cent in 1978–79 and 5 per cent in 1979–80. We have received no evidence that this has created any difficulty for consumers who wish to obtain EEC sugar. This suggests that other adequate sources of imported sugar are available in this country. Secondly, we are satisfied by evidence which we have received that such other sources do in fact exist. By far the greater part of the sugar imported from continental countries of the EEC is already handled by merchants other than Berisford or by brokers. We have no doubt that, even if the Berisford group were to cease altogether to handle imported EEC sugar, these competitors would expand their imports as much as might be necessary to meet the demand.

9.10. This does not dispose of the argument completely, because it is necessary also to consider whether the merger might affect the availability of the imported sugar over the whole market in this country. Large users, who can buy sugar direct from brokers, or even direct from continental suppliers, would not be inconvenienced. It has, however, been suggested to us that medium and small users, who depend upon merchants for supplies of imported sugar, might have difficulty in getting it if it were no longer offered by Berisford. Berisford's business as a merchant is predominantly with the larger customers, but it does have a number of medium and small customers (see Table 2.11) who might, it is argued, have difficulty in finding a substitute supplier. Some difficulty of this kind might be experienced at first. However, there are other merchants who already have wide connections, and we have no reason to doubt that they would be ready to extend these connections still further. We think, therefore, that any difficulty experienced by medium or small consumers would soon disappear.

9.11. As to the second kind of competition which we have described in paragraph 9.6, there must be a possibility that the volume of a particular kind of business done by merchants may be reduced when the largest merchant is removed from the merchanting field. In our judgment, however, this need not be expected to produce any significant reduction of competition. Transactions of this particular kind are limited in volume and are of greatest importance to the medium and small customers, who do not form the section of the market in which Berisford predominates. We consider that the effect of curtailing these transactions could be small and in any event the gap left by Berisford can be filled by the other merchants.

9.12. One particular aspect of this form of competition that has concerned a number of those who gave evidence was the need to ensure that, in a merged group, Berisford ceased to have any interest in dealing in Tate & Lyle products. This is clearly important as it would be very detrimental to the already limited competition in the market if either of the duopolistic producers was involved in selling or marketing the other's products. We consider that the merger would operate against the public interest by leading to such reduction in competition unless Berisford were to give up its merchanting and other trading functions in relation to Tate & Lyle products.

9.13. Provided, therefore, that Berisford is required to give up its interests in selling Tate & Lyle products, we think that the proposed merger would have no effect on competition beyond possible temporary difficulties which should be adjusted in a short time.

**The effect of the proposed merger on the structure of the market**

9.14. The traditional structure of the British sugar market has been rudely disturbed in the last few years. In part this has been due to the adherence of the United Kingdom to the EEC. In part it has been due to the decision of British Sugar to increase its share of the market, and for this purpose to negotiate individual prices directly (ie without the interposition of merchants) with a wide range of customers, both large and small, and not to increase merchants' allowances any further. A number of users, most of them small users, told us that this had resulted in a reduction of the price at which they could buy sugar, and they feared that control of British Sugar by Berisford might mean that there would be greater scope for the merchants and the price would change to their disadvantage. Five of the sugar merchants, on the other hand, expressed to us the opposite fear that the maintenance of British Sugar's policies would lead to the disappearance of the merchants and the loss to users of the marketing and advisory services which merchants offered; this might also result in higher prices.

9.15. We do not think that at this moment any assumption can safely be made about the structure of the market which will emerge, whether the proposed merger does or does not take place. We do not know whether the effect of British Sugar's existing policies upon the merchants will be as drastic as the five merchants submitted to us, nor whether, if it is, British Sugar will continue to pursue those policies unmodified. British Sugar now holds 50 per cent of the market. It has already succeeded in reducing the part played by the merchants in the market and their influence upon it, and appears to enjoy an increasingly strong position in competition with Tate & Lyle. We do not know whether, in these circumstances, the changes of terms which British Sugar has granted while increasing its market share will be maintained. The merchants appeared clearly to expect that control of British Sugar by Berisford would lead to an improvement in their position. However, Berisford itself told us that it had not decided what part the merchants would play in its marketing policy nor what remuneration it would be prepared to pay them. It is true that Berisford understands the position of the merchants, but is is not to be assumed that its attitude to these questions as a producer of sugar (ie it it were to get control of British Sugar) would be the same as its attitude as a merchant.

9.16. Another suggestion which has been put to us is that, if the merger were to take place, the position of the remaining merchants in the market would be weakened, with the result that each of them would be likely to associate itself closely either with British Sugar or with Tate & Lyle; the merchants would thus be lost to the market as an independent force. This is possible, but it is not the only possibility. Another is that the remaining merchants, realising that many users who had dealt with Berisford as merchants might be looking for other merchants to whom to transfer their business, might make a vigorous effort to win that business and might do so knowing that their true independence would be their best recommendation. Here again, we do not think it can safely be assumed that one result rather than another would follow upon the merger.

9.17. British Sugar also put forward the proposition that the merger would give the combined group a greater opportunity to increase prices, as it could restrict or export sugar produced in the United Kingdom and benefit from increased profits from imports. Berisford strongly denied any such intention, drawing attention to the undertakings it had offered to the Minister of Agriculture, that it would neither restrict production nor export sugar without first offering it in the United Kingdom at what, it assured us, would be appropriate prices. We are satisfied from Berisford's evidence that even if it were able to increase prices in the way suggested by British Sugar, which in view of possible competition from imports of sugar seems doubtful, it has no intention of doing so. In any event, large scale manipulation of the market in the way suggested would become apparent and, if the practice continued, the industry could be investigated under the Fair Trading Act 1973 or the Competition Act 1980.

9.18. We do not consider it is possible at the moment to foretell, particularly now that Tate & Lyle has announced proposals for closing its Liverpool refinery, how the structure of the sugar market will develop even if there is no merger and circumstances remain as they are now. It is even more difficult to foretell how the structure will develop if the merger takes place. In these circumstances we do not think it can safely be concluded that the merger would affect the structure of the market in some way adverse to the public interest.

**Berisford as a commodity trader in sugar**

9.19. In addition to its activities in the United Kingdom as a sugar merchant the Berisford group, through its subsidiary Rayner, trades on the London Sugar Terminal Market and has associated companies in Europe and New York which trade in sugar. It was suggested to us by one of the other London sugar traders that the acquisition of British Sugar by Berisford would give it substantial advantages over its fellow traders by the possession of physical stocks of sugar and the detailed knowledge of the progress of the United Kingdom beet sugar season. We have concluded, however, that the acquisition of British Sugar is not likely to give Berisford the degree of dominance on the London Sugar Market that would put the public interest in the maintenance of a competitive market at risk.

**British Sugar's relations with the farmers**

9.20. In its evidence, which is summarised in Chapter 7, the NFU stressed the importance of sugar beet to the farmer. British Sugar is the sole United Kingdom sugar beet processor and thus provides the only outlet for the beet that is grown. The relationship between the farmers and British Sugar is therefore important, as a loss of confidence by the farmers in the company could result in a contraction of the area of beet that is planted. The NFU told us that in the past, despite some disputes, relations with British Sugar had generally been good and, in particular, it was confident that the company would normally adopt the same approach as the NFU in emphasising to the Government the need to maintain the level of EEC quotas.

9.21. Berisford is well aware of the importance of the farmers to British Sugar and, during the course of the inquiry, has assured us that, if the merger were to take place, it would consult the farmers fully before making any changes to existing arrangements. In particular, Berisford stressed that it would be pressing for the maximum EEC quotas for the United Kingdom and would encourage farmers to grow sufficient beet to fill the quotas. Furthermore, while British Sugar was extremely doubtful about the long-term possibilities of growing sugar specifically for export outside the EEC, Berisford appeared more hopeful and suggested that it might be able to gain the support of the farmers by offering some form of minimum price for the beet by use of the futures market. The NFU has some misgivings about control of British

Sugar by a commodity dealer. However, we believe that Berisford, to protect its investment, would seek to gain the support of the farmers in much the same way as an independent British Sugar. We conclude, therefore, that the merger would not, subject to the reservation in paragraph 9.23, be a major risk to the farmers' interests.

9.22. The NFU told us it considered the present Government involvement in British Sugar as a shareholder had provided some measure of protection to the farmers' interests and that if the merger were to take place the Government holding should be retained. We do not consider that it is our duty in considering the merger to comment on this question.

9.23. One possible detrimental effect of the merger which concerns us, and in which the farmers are involved, is the potential loss of information on British Sugar's productivity and financial position if a separate and detailed annual report and accounts are no longer available. British Sugar is the only United Kingdom purchaser of sugar beet and the dominant sugar producer in the United Kingdom. We consider that the merger would operate against the public interest by leading to such a loss of information unless British Sugar were maintained as a separate subsidiary and the farmers, and others needing to assess the record of the company operating the monopoly, had available full information on its operations.

**The effect of the merger on British Sugar**

9.24. Although British Sugar and Berisford are both public companies with broadly comparable profits, they are very different in respect of activities, turnover and number of employees. British Sugar, whose operations are wholly situated in the United Kingdom, is a manufacturing company with 17 factories which, in the beet processing season, are engaged in continuous processing requiring specialist knowledge and machinery not unlike that used in the chemical and oil industries. Berisford, on the other hand, is principally a commodity dealer with extensive overseas trading interests, although it has recently built up or acquired a number of small manufacturing and distribution units. Both companies have considerable requirement for capital but there is a significant difference in the type of finance that is required. British Sugar's principal need is for long-term capital to enable it to continue to modernise and maintain its factories. Berisford requires mainly working capital to be used flexibly in its commodity trading which has been so successfully expanded in recent years. Even in relation to sugar, in which both companies trade, British Sugar's concern is as a manufacturer with sales in the United Kingdom, having interests which may not necessarily coincide with those of Berisford operating as a merchant. We have, therefore, considered whether the differences between the companies and the circumstances of the merger are such that the merger could result in a loss of efficiency of British Sugar which, in the absence of competing beet processors in the United Kingdom, would clearly be contrary to the public interest.

9.25. We have tried to estimate British Sugar's efficiency and the effectiveness of its management. Both British Sugar and Berisford provided us with figures comparing British Sugar's performance with that of other sugar producers in the EEC. International comparisons based on such figures are notoriously difficult to assess, because the figures may reflect national circumstances rather than factors under the control of the companies concerned. This observation applies with particular force to the sugar beet industry, where the figures are affected by differences between one country and another in agronomy, in weather and in methods of measuring and paying for the beet.

9.26. We have also examined British Sugar's figures from year to year for a number of possible efficiency factors, such as the sugar extraction rate, the white sugar production per employee, the man-minutes per tonne of beet sliced and the tonnes of fuel per 100 tonnes of sugar. Each of these ratios shows an improvement over the last six years, but here again conclusions must be drawn with caution. The figures are influenced not only by efficiency but also by the volume and quantity of the harvest; and from 1973 to 1976 there was an exceptional series of bad harvests. If, in order to overcome this, one extends the period backward from six years to ten, the improvement is still discernible but less pronounced.

9.27. The fair conclusion seems to us to be that British Sugar is an efficient company, and its efficiency has been improving in recent years. It has carried out an extensive programme of modernisation at six of its factories in the last five years, and has plans for continuing this programme as resources allow. Its record in labour relations is good.

9.28. We have considered the possible effect of the merger upon the company's efficiency in three respects: viz, management, capital investment and labour relations.

9.29. Berisford told us that, in general, it would seek to retain the present management of British Sugar but there seems to us to be no doubt that at least one or two prominent members of the board of British Sugar would go if the merger were to take place. British Sugar suggested that more would wish to leave, partly because of the difference between an executive position in a major company and a similar position in a division or subsidiary of a group and partly because of differences between Berisford and British Sugar in attitude, style and policy.

9.30. This position is not uncommon in cases of prospective mergers. It must be recognised that changes may involve more than one or two individuals and therefore may affect efficiency. Experience suggests, however, that it may be wise to avoid too certain an expectation. Those involved in these situations sometimes find that their apprehensions are not borne out by the event.

9.31. Another consideration relating to management is that major decisions concerning British Sugar would, after the merger, be subject to the approval of the main board of the Berisford group. Most of the members of this board have hitherto been chiefly concerned not with manufacturing processes but with dealing in commodities, and there is a possibility of intervention in the management of British Sugar not guided by knowledge of the day-to-day operations of the business. The effectiveness of the management of British Sugar might therefore be impaired. We think it possible that, as a board of a subsidiary rather than a parent company, the senior management of British Sugar might be concerned not only with the efficient management of the British sugar beet processing industry but also with its relations with the board of its parent company, and this possible diversion of the management's single-minded attention to the business it was running might produce some detriment to that business' efficiency.

9.32. Here again we face a possibility which cannot be denied. On the other hand, the businesses of Berisford and British Sugar are not wholly dissimilar, and a business does not necessarily suffer from being exposed to the judgment of those with experience in other fields. Berisford's existing subsidiaries do not appear to have suffered in the way it is suggested that British Sugar might, although the relative size of British Sugar may reduce the value of this comparison. Everything depends upon the discretion of the members of the main board and the weight of British Sugar's representation on it.

9.33. The second area of concern relates to the continuing need of British Sugar for substantial amounts of capital to continue its investment programme and carry out the extensive maintenance that is necessary to keep the existing factories efficient. At present, while it is an independent company, British Sugar's investment programme can be carried out by its management with a single-minded view. If British Sugar were to become part of a large group with diverse interests its investment requirements would have to be considered with those of the Berisford group as a whole. We believe that there is a risk that in these circumstances British Sugar's cash flow could be diverted and its investment requirements not fully met.

9.34. We have to do our best to assess the reality of this risk. There is again no suggestion that any existing subsidiary of Berisford has suffered in this way; but the size of British Sugar and the nature of its business may mean that for present purposes this experience is not very significant. On the other hand, the size of British Sugar may itself be thought to reduce the suggested risk; British Sugar will represent for Berisford a large investment, a large part of the group's business and potentially a large source of profit. These considerations may make the group disinclined to divert British Sugar's cash flow or to subordinate to other interests its investment requirements.

9.35. Finally there is the consideration of labour relations. For British Sugar this subject is exceptionally important. Since production is concentrated in 120 days of the year, during which it goes on 24 hours a day, seven days a week, without even a Christmas break, any interruption is extremely damaging. When the campaign is over, many of those who have been engaged on production are engaged on maintenance. This requires the unions' agreement to an exceptional degree of flexibility in the use of labour. The business could therefore be prejudiced very easily by any clumsiness or lack of skill in the handling of labour relations.

9.36. It is true that in the Berisford group there appears to be no experience of conducting labour relations in negotiation with trade unions in a large industrial undertaking. Berisford has relations with unions (apparently quite satisfactory), but in different circumstances and on a smaller scale. The question is whether on entering a different field Berisford would act in such a way as to destroy the tradition of good relations which British Sugar has built up. This is possible, but we do not think it would be right to conclude that it is likely or to be expected. The maintenance of the tradition of good relations would be very much in Berisford's interest and we see no reason to suppose that it would be unable to display the necessary skill and sensitivity.

**Conclusions**

9.37. It will appear from the foregoing discussion that we find it hard to identify any way in which the proposed merger is likely to operate positively for the public benefit. That, however, does not lead us to a decision. Our duty under section 69(1) of the Fair Trading Act is to report whether the creation of the merger situation 'may be expected to operate against the public interest'. We have therefore to consider whether the evidence, even if it does not indicate any likely benefit to the public, weighs down the scale on the other side and creates an expectation that in some way the merger would operate against the public interest.

9.38. We have found that, providing Berisford ceases to trade in Tate & Lyle's sugar and sugar products, the merger would have no effect on competition beyond possibly giving rise to a difficulty which, because it would only be temporary, would at worst have no great significance (see paragraphs 9.10 and 9.13). The future of the market structure is too uncertain to permit any conclusion that the merger would affect it adversely to the public interest (see paragraph 9.18). We have found no reason to expect that the merger would have any undesirable effect either upon Berisford's position in the commodity market (see paragraph 9.19) or, providing British Sugar is maintained as a separate subsidiary, upon relations between British Sugar and the farmers (see paragraph 9.21 to 9.23).

9.39. The question which has concerned us most is that of the effect of the merger upon British Sugar's efficiency. In each of the three areas of management, capital investment and labour relations we have seen some possibility that the merger might produce some result prejudicial to the company's development. In each of these areas we have also seen the possibility that the outcome of the merger might be different, and neutral in its bearing upon the company's business. In none of these areas is there, in our judgment, sufficient ground for thinking that one of these possibilities is more likely to be realised than the other.

9.40. The question we have to consider is not merely whether there is a possibility that the merger will operate against the public interest. If only a possibility were required, hardly any merger could ever be allowed to proceed, for it is very rarely that such a possibility can be quite excluded. The question is whether the evidence creates an expectation that the merger will operate against the public interest. To put the matter colloquially, the required conclusion is not, 'This may happen', but 'We expect that this will happen'.

After careful consideration of the evidence before us, we do not find that it produces the required degree of confidence that any result adverse to the efficiency or the development of British Sugar will in fact follow upon the merger.

9.41. To sum up, we find no respects in which the merger may be expected to produce clear benefits in relation to the public interest. By contrast we find that the merger may be expected to operate against the public interest in the ways set out in paragraphs 9.12 and 9.23. However, we consider that on both these points the potential adverse effects on the public interest could be remedied if undertakings were given by Berisford under section 88 of the Fair Trading Act 1973. The undertakings should commit Berisford:

(*a*) as soon as an orderly transition can be arranged, and subject only to its legal commitments, to cease trading in Tate & Lyle sugar and sugar products, save for the acquisition of sugar for incorporation in Berisford's or British Sugar's own products for the reasons described in paragraph 2.25;

(*b*) to maintain British Sugar as a separate subsidiary without major changes in its activities or purposes, and to publish annually reports and accounts with supplementary material such as to give information comparable with that given in the Directors' Report and Accounts, Chairman's Statement and Chief Executive's Review published for British Sugar for 1979–80.

9.42. In our deliberations we have only been able to take account of the present structure of the market and in a merger reference we have been unable to investigate fully all companies in the market. We have, however, noted with concern that competition is very restricted. If changes were to occur affecting the arrangements for importing ACP sugar or the CAP regime, or if Tate & Lyle were substantially to restrict its operations, we believe there could be serious risks to the already limited elements of competition. We therefore suggest that, if such changes occur, or any other changes which fundamentally affect the present market arrangements, it would be desirable for any possible monopoly situation to be considered with a view to the establishment of any necessary safeguards in the interests of users of sugar, commercial and domestic alike.

J G Le Quesne (*Chairman*)
R G Aspray
R L Marshall
J S Sadler
R G Smethurst

The following member of the group dissents from the conclusion for the reasons set out in the note of dissent included in this report.

E A B Hammond

J Gill (*Secretary*)

9 February 1981

## Note of dissent

### By Mr E A B Hammond

9.43. I agree with my colleagues that it is hard to identify any way in which the proposed merger is likely to operate positively for the public benefit (see paragraph 9.37). I also share my colleagues' view that in regard to two particular issues, where the proposed merger may be expected to operate against the public interest, the adverse effects foreseen can be remedied by the provision of suitable undertakings (see paragraph 9.41).

9.44. However, I part company with the rest of the group in my apprehensions about the effects of the proposed merger on industrial relations within British Sugar (see paragraph 9.36). British Sugar is involved in an industry with special features. The 'campaign' covering a period of some four months in the late autumn and winter involves a commitment round-the-clock from its employees, including temporary staff, to process the beet crop; any interruption is extremely damaging. Moreover, the off-season maintenance programme requires flexible working arrangements to use both craft and process employees efficiently.

9.45. Some industries with similar sensitive settings and special requirements have sought to buy peace and co-operation with much higher than average earnings—not always with success. The information provided indicates that this is not a remedy that British Sugar has used. Yet British Sugar is clearly an efficient company with an improving record of efficiency in recent years and good industrial relations.

9.46. It is my judgement that this efficiency results from a combination of great skill, integrity and mutual trust based on an advanced and comprehensive management-employee relationship. Terms and conditions of employment are determined through the Joint Negotiation Council and the Craft Unions' Negotiating Committee. These bodies cover the process and craft workers and involve the national and local officials of the unions concerned, together with direct employee representatives and British Sugar's Director of Industrial Relations. British Sugar operates a well-defined disputes procedure with the trade unions. There are also established procedures for disciplinary matters, performance evaluation and job grading. Parallel to the direct trade union aspect of industrial relations, British Sugar operates a direct means of consultation and communication between management and employees at all levels. This is achieved through Works' Advisory Councils at every factory and at Head Office. Elected members represent individual sections or functions and there are also several *ex officio* members from senior management. The elected members appoint a Vice-Chairman of the WAC. The Vice-Chairmen from each factory attend half-yearly meetings with the Operations Committee, at which matters of importance to factories and the sugar industry are discussed fully.

9.47. To deal with the special requirements of production during the campaign British Sugar has developed a system of flexible working arrangements between craft and process employees. In the off-season, process employees undertake various skilled jobs to assist British Sugar's maintenance programme. The craft unions have assisted in training process employees. Comprehensive training courses are given to employees of all levels to improve and maintain British Sugar's efficiency.

9.48. One final but important element in the management/employee arrangement is an employee share purchase scheme. British Sugar's scheme was the first to be approved within the provisions of the Finance Act 1978.

9.49. In short, British Sugar's good industrial relations are firmly based on a comprehensive structure of procedures and consultation. This structure serves the industry well because it has involved and won the trust and co-operation of the employees and their trade unions. Berisford has little, if any, experience in handling such a complex and balanced relationship, and whilst I acknowledge that Berisford would wish to maintain British Sugar's achievements in industrial relations, good intentions in this field are not enough. The skills and trust developed and fostered by British Sugar would in my view be seriously damaged if the proposed merger took place, with adverse effects on the efficiency of British Sugar. The degree of risk of such damage is sufficiently strong to convince me that the proposed merger might be expected to operate against the public interest. Since the adverse consequences do not lend themselves to remedial action by way of undertakings or statutory orders, and in the absence of any countervailing benefits to the public interest, it follows that, in my view, the proposed merger should not be allowed to proceed.

(*Signed*) E A B HAMMOND

9 February 1981

## Glossary of terms and abbreviations

| | |
|---|---|
| ACP Countries | African, Caribbean and Pacific developing countries, signatories to the Convention of Lomé and its sugar protocol. A full list is provided in Appendix 2, paragraph 29. |
| 'A' quota | The basic white sugar quota laid down by the EEC for each sugar regime, which normally lasts five years (see Appendix 2). |
| Beet pulp | The pulp fibre remaining after extraction of the sugar content from sugar beet. Used for animal feed. |
| Beet raws | See Raw sugar |
| Beet tops | The leaves, stems and crowns of sugar beet plants. |
| 'B' quota | The quantity of sugar which is in excess of the 'A' quota but is less than the maximum quota. The producer of 'B' quota sugar must pay a levy (the 'B' quota levy) to the EEC authorities on such sugar, although the levy can be shared between the producer and the grower (see Appendix 2). |
| Break crop | A crop grown to break the rotational cycle of the main crops, usually cereals, to eliminate the pests, diseases and weeds usually associated with these main crops and to allow the soil supporting the main crops to be reconditioned. |
| Campaign | The processing period for sugar beet, running normally from the end of September to mid/end January. |
| Cane raws | See Raw sugar |
| CAP | Common Agricultural Policy of the EEC. |
| CAP sugar regime | The CAP in relation to sugar, which is described in Appendix 2. |
| CSA | Commonwealth Sugar Agreement. A long-term agreement for the supply of sugar by certain Commonwealth countries to the United Kingdom (1951–74). |
| 'C' sugar | All sugar produced in excess of the maximum quota. There is no regulatory limit on 'C' sugar production, but such sugar must be exported outside the EEC by producers, with no guarantee as to price (see Appendix 2). |
| Drop size | The size of one individual delivery of sugar to a customer. |
| ECU | European Currency Unit. The currency unit used as the basis of the European Monetary System and in which common agricultural prices are set within the EEC. |
| EEC | European Economic Community. |

| | |
|---|---|
| 'Green pound' | The fixed representative rate of exchange ('green rate') used for converting EEC common farm support prices (in European Currency Units) into sterling for the purpose of calculating institutional agricultural prices in the United Kingdom (see Appendix 2). |
| Hectare | 2·471 acres. |
| Intervention price – white sugar | EEC support price for sugar fixed currently for surplus areas at about 5 per cent below the target price, after deduction of the storage levy. The national intervention agencies are obliged to buy any sugar produced within the EEC maximum quota which is offered to them (see Appendix 2). |
| Intervention price – raw sugar | EEC support price for raw beet sugar derived from the white sugar intervention price by deduction of a refining margin and transport costs (see Appendix 2). |
| 'Key account' | A customer with whom British Sugar negotiates prices (or profile discounts from list price) directly. The 'profile' discounts are related to the customer's individual circumstances. |
| Liquid sugar | This consists of 2 parts sugar to 1 part water. Beet sugar must be taken to the crystallisation stage and the crystals then redissolved in water to produce liquid sugar. Liquid sugar (of a reasonable degree of purity) can be extracted from sugar cane during the refining process. Liquid sugar is used almost entirely by manufacturers. |
| Lomé Convention | A treaty between the EEC and certain developing countries in Africa, the Caribbean and the Pacific. The term is used within this report to denote only those sections relating to the supply of sugar (Protocol No 3) which came into force in 1975 and have an indefinite duration independent of that of The Convention of Lomé itself. |
| MCAs | Monetary Compensatory Amounts. Additional payments or receipts on trade in agricultural produce between EEC member states, to compensate for the differences between commercial currency rates and the fixed representative rates ('green rates') used in the conversion of EEC common farm support prices (in European Currency Units) into national currencies (see Appendix 2). |
| Polarity | The proportion of sucrose in raw or refined sugar. |
| 'Profile' sales | Sales for which the sugar producers negotiate prices (or 'profile' discounts from list price) directly with the customer. The sales may or may not be administered through a merchant. |
| Raw sugar | Cane or beet which has undergone initial processing but is unrefined. Referred to as cane or beet raws. |
| Specialities | Sugar or syrup products other than standard granulated sugar. |

| | |
|---|---|
| Sugar Board | A Government agency set up in 1956 to purchase CSA raw sugar from producing countries at negotiated prices for resale to British cane sugar refiners, and to provide financial support to the home-grown beet industry on behalf of HM Government. |
| Target price | The price set for white sugar each year by the EEC for the area of greatest surplus within the Community. It represents the price which might be expected to apply in the market place in a situation of balanced supply and demand under normal conditions of free competition. |
| White sugar | The final refined product from either sugar beet or sugar cane. |
| WSE | White sugar equivalent. Volumes of sugar and syrup products are commonly expressed in terms of WSE. |

APPENDIX 2

*(referred to in paragraphs 2.11, 2.30, 4.4 and 9.6)*

# The EEC sugar regime

## HISTORICAL DEVELOPMENT OF THE EEC SUGAR REGIME

### The regime prior to United Kingdom accession

1. The EEC sugar regime is a part of the Community's overall Common Agricultural Policy (CAP). Although the establishment of an EEC sugar regime was foreseen in Annex II to the Treaty of Rome of 25 March 1957, this was not put into effect until 1968–69. The objective of the regime was then described as being to stabilise the sugar market whilst maintaining the necessary guarantees in respect of employment and living standards of Community growers of sugar beet and sugar cane. The regulation setting out the scope of the regime does not give an objective in relation to sugar beet processors or sugar cane refiners.

2. The sugar regime differs from that for all other agricultural products covered by the CAP in that production is regulated both through a system of intervention prices and through national production quotas. It also has two other special features. Firstly, unlike the regulations for other products, it has to take account of the Community's commitment to purchase and import sugar under the Lomé Convention, and secondly the degree of self-financing of support arrangements is much higher than in other regimes.

3. The principal elements of the regime are:

(*a*) a system of linked institutional prices for sugar beet, raw sugar and white sugar providing a guaranteed minimum price for sugar beet up to a certain level of production;

(*b*) free trade in sugar within the Community;

(*c*) a system of refunds and levies to prevent the EEC market being adversely affected by fluctuations in the world market price; and

(*d*) a system of national production quotas designed initially as a 'transitional' system introduced in order to ensure that production was adequate to meet consumption.

4. At the time of its introduction, of the original six member states only Italy was significantly below self-sufficiency (between 50 per cent and 60 per cent self-sufficient). Other countries, particularly France and Belgium, were very considerable surplus producers (between 150 per cent and 170 per cent self-sufficient).

### Developments since 1973

5. The accession of the new member states in 1973 changed the pattern of the market very significantly. Denmark was the most easily assimilated in price and production terms (142 per cent self-sufficient in sugar production). The United Kingdom was, for historic reasons, the least self-sufficient of all

member states (30 per cent), with a large traditional import requirement for raw cane sugar.

6. Import quotas under the Commonwealth Sugar Agreement totalled 1·7 million tonnes of which 340,000 tonnes was allocated to Australia. As a result of the United Kingdom's entry into the EEC the CSA was not renewed in 1974, however, access to the EEC for imports from ACP countries of an amount totalling 1,304,700 tonnes of WSE, most of which is received raw, was guaranteed under the Lomé Convention and associated agreements, and this arrangement is incorporated in the EEC sugar regime. With the exception of Australia, all the Commonwealth countries which had supplied the United Kingdom under the CSA received quotas under these preferential arrangements. Most of the sugar allowed preferential access to the Community under the EEC sugar regime is refined and sold in the United Kingdom by Tate & Lyle Refineries Ltd, although some is refined in other EEC countries.

7. Britain's accession to the European Community and the ending of the Commonwealth Sugar Agreement coincided with the most severe sugar shortage for 20 years. Prices on the world market rose rapidly, reaching £680 per tonne for a brief period. Early in 1974 certain Caribbean suppliers diverted supplies away from Britain, where a fixed price of £63 per tonne prevailed, compared with a world market price of £250 at that time. By the middle of 1974 it was apparent that Britain would be short of more than 20 per cent of its annual sugar requirement for that year.

8. A number of measures were required to maintain supplies to the United Kingdom market involving transfer payments from British Sugar to the cane sugar refiners and both Government and EEC subsidies. The EEC regime was broadly successful in stabilising prices and maintaining supplies to the consumer during this difficult period.

9. In view of the possibility of a sugar shortage in the EEC, the Community in 1974 took various measures to encourage beet production. Firstly there was a substantial increase in production quotas and secondly there was an increase of some 15 per cent in the EEC guaranteed price. The increase in production which followed these measures and the effect on the EEC sugar balance is shown in Table 1 opposite.

10. The current sugar regime was originally intended to cover the period up to 1979–80. The Commission proposed a number of changes at the end of 1979, including a reduction of some 11 per cent in overall maximum quota levels, with the proposals for the United Kingdom suggesting a reduction of nearly 30 per cent which was later reduced to 23·3 per cent. The proposals were not agreed and the current regime was rolled forward into 1980–81. Further proposals have now been put forward providing for a reduced cutback in quotas, but further negotiations are likely before quotas are agreed.

11. During the 1970s, technical advances in the production of isoglucose resulted in the increased substitution of isoglucose for certain forms of sugar in the USA and Japan and controls were therefore introduced for isoglucose production in the EEC.

TABLE 1 **EEC sugar balance (thousand tonnes white equivalent)**

| *Crop years (Oct/Sept)* | *Total production (i)* | *Consumption (trade deliveries)* | *Imports (ii)* | *Surplus (iii)* | *Self sufficiency ratios (total production divided by total consumption)* |
|---|---|---|---|---|---|
| 1968–69 | 8,177 | 8,990 | N/A | N/A | 91·0% |
| 1969–70 | 8,714 | 9,190 | N/A | N/A | 94·8% |
| 1970–71 | 8,371 | 9,465 | N/A | N/A | 88·4% |
| 1971–72 | 9,639 | 9,361 | N/A | N/A | 103·0% |
| 1972–73 | 9,007 | 9,765 | N/A | N/A | 92·2% |
| 1973–74 | 9,512 | 10,414 | 1,418 | 516 | 91·3% |
| 1974–75 | 8,563 | 9,561 | 1,718 | 720 | 89·6% |
| 1975–76 | 9,703 | 9,535 | 1,428 | 1,596 | 101·8% |
| 1976–77 | 10,003 | 9,036 | 1,444 | 2,411 | 110·7% |
| 1977–78 | 11,527 | 9,442 | 1,354 | 3,439 | 122·1% |
| 1978–79 | 11,714 | 9,507 | 1,221 | 3,428 | 123·2% |
| 1979–80 (*provisional*) | 12,269 | 9,569 | 1,363 | 4,063 | 128·2% |

*Notes:*
(i) Includes 'C' sugar.
(ii) Excludes third country sugars imported under special Customs arrangements for refining in Community refineries and re-export.
(iii) Part of the surplus is used to supply the Community's traditional export markets. These take around 800,000 tonnes per annum currently.
N/A = not available.

*Source:* *World Sugar Journal*, August 1979; EEC Sugar Policy, House of Lords Select Committee on the European Communities March 1980; MAFF.

## PRINCIPAL ELEMENTS OF THE REGIME

### Production quotas

12. Each member state is given a basic quota which is divided by the member governments between their beet processing companies. The basic quota (or 'A' quota) was based on average production between 1968–69 and 1972–73 multiplied by a co-efficient set by the Council. An undertaking's basic quota is the maximum quantity of sugar which can benefit in full from the Community's price guarantee without payment of the production levy.

13. Additionally, each processor is allotted a 'maximum quota equal to its basic quota multiplied by a co-efficient'. The level of the maximum quotas is reviewed annually. For 1979–80 the co-efficient is 1·275 but it has been as high as 1·45 during the current regime. The difference between the maximum quota and the basic quota is termed the 'B' quota. 'B' quota sugar may be sold on Community markets with the same guarantees as to price as sugar within the basic quota, but a production levy must be paid on it. The production quotas are shown in Table 2.

14. All sugar produced up to the maximum quota level may be freely traded within the Community, sold into intervention at the guaranteed price or exported under the regime's arrangements. The purpose of the 'B' quota production levy is described below.

15. Sugar produced in excess of an undertaking's maximum quota (so-called 'C' sugar) may not be sold on Community markets. It has to be sold on world markets 'before January 1 following the end of the marketing year

in which it was produced', without any Community export refund. In order to encourage compliance with these restrictions there is provision to levy a fine for any 'C' sugar which cannot be shown to have been satisfactorily exported.

TABLE 2 **Community sugar production quotas by member states* ('000 tonnes, white value)**

| *Marketing years (June/July)* | *Belgium* | *Denmark†* | *France Beet* | *France Cane* | *France Total* | *Germany* | *Ireland* | *Italy* | *Holland* | *UK†* | *EEC Total* | *'B' Quotas* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1968-69—1973-74 | | | | | | | | | | | | |
| Basic quota A | 550 | 290 | 1,934 | 466 | 2,400 | 1,750 | 150 | 1,230 | 550 | 900 | 7,820 | 35 |
| B quota | 83 | 102 | 677 | 167 | 840 | 613 | 53 | 431 | 83 | — | 2,205 | |
| Maximum quota A+B | 633 | 392 | 2,611 | 629 | 3,240 | 2.363 | 203 | 1,661 | 633 | 900 | 10,025 | |
| 1974–75 | | | | | | | | | | | | |
| Basic quota A | 550 | 290 | 1,934 | 466 | 2,400 | 1,750 | 150 | 1.230 | 550 | 900 | 7,820 | |
| B quota | 110 | 131 | 870 | 210 | 1,080 | 788 | 68 | 554 | 110 | 90 | 2.931 | 45 |
| Maximum quota A+B | 660 | 421 | 2,804 | 676 | 3,480 | 2,538 | 218 | 1.784 | 660 | 990 | 10,751 | |
| 1975 76 | | | | | | | | | | | | |
| Basic quota A | 680 | 328 | 2,530 | 466 | 2,996 | 1,990 | 182 | 1,230 | 690 | 1,040 | 9,136 | |
| B quota | 306 | 148 | 1,139 | 210 | 1,349 | 896 | 82 | 554 | 311 | 468 | 4,114 | 45 |
| Maximum quota A+B | 986 | 476 | 3,669 | 676 | 4,345 | 2.886 | 264 | 1,784 | 1,001 | 1,508 | 13,250 | |
| 1976–77 | | | | | | | | | | | | |
| Basic quota A | 680 | 328 | 2.530 | 466 | 2,996 | 1,990 | 182 | 1.230 | 690 | 1,040 | 9,136 | |
| B quota | 238 | 115 | 885 | 164 | 1,049 | 696 | 64 | 431 | 242 | 364 | 3,199 | 35 |
| Maximum quota A+B | 918 | 443 | 3,415 | 630 | 4,045 | 2,686 | 246 | 1,661 | 932 | 1,404 | 12,335 | |
| 1978–79—1980-81 | | | | | | | | | | | | |
| Basic quota A | 680 | 328 | 2,530 | 466 | 2,996 | 1.990 | 182 | 1,230 | 690 | 1,040 | 9.136 | |
| B quota | 94 | 90 | 696 | 128 | 824 | 547 | 50 | 338 | 190 | 285 | 2,419 | 27·5 |
| Maximum quota A+B | 774 | 418 | 3,226 | 594 | 3,820 | 2,537 | 232 | 1.568 | 880 | 1,326 | 11.555 | |

*Notes:*
* There is no production in Luxembourg. The figures for Belgium and Holland reflect their special 'mixed-price' system.
† Quotas applicable only from 1973–74.

## Institutional prices

16. The EEC support system is based on a series of linked institutional prices. There are basically four prices involved:

(i) *Target price*
This only applies to white (refined) sugar and represents the price that might be expected to apply in the market place in a situation of balanced supply and demand and under normal conditions of free competition.

(*ii*) *Threshold price*
This applies at the Community frontier and represents the minimum selling price in the Community for sugar imported from non-member countries. It is designed to eliminate the threat of cheap imports.

(*iii*) *Intervention price*
This is the price at which excess production may, in principle, be sold into intervention. It is designed to ensure stable internal prices. For white sugar the basic intervention price is set some 5 per cent below the target price. (The effective 'support price' is actually equal to the basic intervention price plus the storage levy.)

(*iv*) *Minimum beet price*
This is to guarantee farmers an assured price. It is derived from the intervention price for white sugar by subtracting a processing margin and certain other costs using a standard sugar content of beet.

(v) *Storage refund*

In common with most agricultural products beet sugar is produced in only part of the year (September to January) although demand is fairly even throughout the year. Under free market conditions producers might wish to charge a price that varies throughout the year in order to offset the storage costs involved. In the interests of the orderly marketing of sugar within the Community, producers, refiners and specialised traders are reimbursed for the costs of holding sugar in store. These refunds are financed by a levy charged on all sugar disposed of within the maximum quota other than to intervention. The consequence of this storage levy is that market prices must be higher than intervention levels by the amount of the storage levy, as whenever a manufacturer cannot recoup the storage levy it will pay him to sell to intervention.

17. The EEC Council of Ministers sets institutional sugar prices annually which are in the first instance calculated in Units of Account or more recently in European Currency Units. The rates which apply in individual countries in *national currency* depend on the 'representative rates' or the 'green currency rates' pertaining at the time, which are explained in the following paragraphs.

18. When the Common Agricultural Policy was first set up in 1962, one of the underlying principles was the establishment of uniform institutional prices throughout the Community. In the absence of a single European currency, common farm support prices were set in EEC 'units of account' (UA)[1], a standard of measurement whose value corresponded to the gold parity of the US dollar, as declared to the International Monetary Fund (IMF). The common support prices in UAs then had to be converted into the national currencies of the various member states, using the official gold-based parity for each currency as declared to the IMF. Since at that time the world monetary system was based on fixed exchange rates, the result of using the UA was that common support prices (expressed in national currencies) were consistent throughout the Community and there would be no artificial profits to be made by moving farm produce from one member state for sale into intervention in another member state.

19. The use of UAs pre-supposed stable rates of exchange between national currencies and consequently the common support price system was threatened by the various fluctuations in exchange rates which occurred within the Community from 1969 onwards. Because the national value of the UAs was linked to the exchange rate of the individual currency, when the IMF parity of a currency was altered (ie a currency was devalued or revalued) it would have been followed by an immediate and automatic change in farm support prices in the country concerned. Support prices would have risen overnight in countries with devalued currencies, leading to 'windfall' gains for farmers, higher food prices and increased inflation. In countries with revalued currencies the reverse would occur, and farmers would suffer a fall in their incomes. These results were unacceptable to the majority of individual states within the Community and led to the introduction of the system of 'representative rates'

[1] The UA has now been replaced by the European Currency Unit (ECU).

of exchange ('green rates') for the agricultural UA, which differed from the market exchange rates of the national currencies. For example, the rate of exchange between the pound sterling and the UA (now ECU) is known as the 'green pound' exchange rate. These 'green rates' are fixed by the EEC Council of Ministers and, traditionally, changing a 'green rate' needs the unanimous support of the whole Council.

20. Currency fluctuations and the consequent divergence between market exchange rates and 'green rates' meant that the orginal CAP system of uniform support prices expressed in national currencies had broken down. Thus additional measures were necessary at Community level to prevent artificial trade flows between member states and a mechanism of at-frontier adjustments was introduced. These adjustments are known as 'monetary compensatory amounts' (MCA)[1], the level of which depends on the differences between the market exchange rates and the 'green rates'. When a member state has a depreciated currency and does not adjust its 'green rate', importers of agricultural products from other EEC markets will receive MCA subsidies and exports will be subject to the payment of the appropriate MCA levy. The reverse will apply to a country with a revalued currency. In the following paragraph it should be borne in mind that EEC institutional prices are set in ECUs (formerly UAs) and have to be adjusted for the effects of the 'green currency'.

21. The basis of the EEC price system is the target price which is valid for white sugar of standard quality, unwrapped, ex-factory, loaded on to the means of transport chosen by the purchaser. It represents theoretically the price level the Commission would like to see and is not a price guarantee for the producers. All other prices in the mechanism are calculated from the target price.

22. The intervention price represents a guaranteed minimum price at which Government agencies must buy sugar which cannot be sold in the EEC. The intervention price is fixed annually for the main surplus area and is about 5 per cent below the target price. Slightly higher derived intervention prices are fixed annually for deficit regions—Italy, the United Kingdom and Ireland and French Départments d'Outre Mer (DOMs).

23. The intervention price for raw sugar is based on the intervention price for white sugar in the greatest surplus area within the Community, minus a refining margin.

24. The minimum price for sugar beet is guaranteed to farmers to ensure them a fair standard of living. The minimum beet price is derived from the intervention prices in each area in question, and is based on a net yield of 130 kilograms of white sugar per tonne of beet with a 16 per cent sugar content. The minimum beet price also takes into account the processing margin, The costs of delivering the beet to factories, and the factories' receipts from the sale of molasses.

[1] These should not be confused with accession compensatory amounts, whose purpose was to bridge the gap between Community prices and the prices of agricultural products in the three new member states following the enlargement of the Community.

25. The threshold price for white sugar is equal to the target price plus the storage levy plus transport costs from the area of greatest surplus, Northern France, to the area of greatest deficit, stipulated as Palermo, Italy. The threshold price for raw cane sugar is this sum less a deduction reflecting a standard refining margin and a standard yield. The threshold price controls trade flows between EEC and non-member countries. Thus no non-preferential sugar is imported into the Community at less than the threshold price. The import levy reflects the differences between world and EEC prices.

**'B' quota levy**

26. Surplus EEC sugar production within the maximum 'A' and 'B' quota levels is exported onto the world market. When world prices are below EEC intervention price a 'refund' is paid to the exporter to make up the difference. The 'B' quota production levy is designed to offset the costs of this subsidy, Its level is currently limited to a maximum of 30 per cent of the intervention price. During the period 1977–79 this was insufficient to finance the entire expenditure on export subsidies.

27. If the application of the full levy is in any year more than sufficient to finance the expenditure on export subsidies, the export levy is reduced accordingly. In such a situation, the production levy would be less than the maximum possible. In a year when the world price is consistently above the EEC intervention price, no 'B' quota levy arises. The 'B' levy is normally borne by processors and farmers in the ratio 40:60.

**Imports of cane sugar**

28. The essential features of the Commonwealth Sugar Agreement (guarantees of duration, access to markets and price) were continued in respect of the developing countries under the Lomé Convention of February 1975 and associated agreements.

29. The quotas of the individual countries under the Lomé arrangements are shown below:

| *Country* | *Lomé Convention agreed quantities (metric tonnes, white value)* |
|---|---|
| Mauritius | 487,200 |
| Swaziland | 116,400 |
| Kenya | 5,000 |
| Tanzania | 10,000 |
| Uganda | 5,000 |
| Madagascar | 10,000 |
| Malawi | 20,000 |
| People's Republic of the Congo | 10,000 |
| Barbados | 49,300 |
| Guyana | 157,700 |
| Jamaica | 118,300 |
| St Kitts-Nevis-Anguilla | 14,800 |
| Trinidad and Tobago | 69,000 |
| Belize | 39,400 |
| Surinam | 4,000 |
| Fiji | 163,600 |
| India | 25,000* |

* By special agreement.

30. Import levies are not charged on Community imports of preferential sugar, and the use of protection measures is excluded. For preferential sugar the Community 'undertakes for an indefinite period to purchase and import at guaranteed prices, specific quantities . . .' The commitment of an indefinite period means that even if the rest of the Lomé Convention should be allowed to lapse, the sugar provisions will be maintained. The 'guaranteed prices' are negotiated annually, within the price range obtaining in the Community. The supplying states are free to sell their sugar on the Community market, under normal commercial arrangements, at the best prices they can get. If, and only if, they are unable to market their sugar at prices equal to the guaranteed price, the Community will step in and purchase their sugar into intervention at that price. The sugar must be offered for intervention buying by the ACP states concerned; there are no provisions under which a Community refiner or trader can offer preferential sugar to intervention. In effect, the ACP guaranteed prices have been the same (or close to) Community raw (and white) sugar intervention prices. The prices apply to bulk sugar, cif European ports of the Community.

31. There are stringent conditions governing the fulfilment of the quotas. If an ACP state's quota is not filled entirely (for reasons other than *force majeure*) then the quota may be 'reduced in respect of each subsequent delivery period by the undelivered quantity'. The Commission may reallocate the unused quotas to other ACP states for future delivery periods, but the reallocation is not automatic. There has been some shortfall of deliveries on the original quotas set by the Lomé Convention and, by 1978–79, the total quota for preferential sugar imports had been reduced from the original level of 1·305 million tonnes to 1·289 million tonnes.

32. Preferential sugar, once admitted, is in 'free circulation' within the Community. This means that it is eligible for Community export refunds on sales to third countries on the same conditions as Community grown beet and cane sugar. It cannot be sold into intervention except as raw sugar directly by the ACP countries.

33. Under the current regime, there is provision for a differential charge to be applied to raw preferential sugar which is imported for refining in a beet factory. The purpose is to ensure that, because of their lower off-season processing costs, beet factories are not at an economic advantage compared with cane refineries.

## INTERNATIONAL TRADE UNDER THE EEC SUGAR REGIME

### Trade within the EEC

34. Free trade of 'A' and 'B' quota sugar is encouraged within the EEC, the effects of differences in national intervention levels being compensated by MCA payments. 'C' sugar must be exported outside the Community at the prevailing world price.

35. Monetary compensatory amounts (MCA) are applied to intra-Community trade in beet and cane sugar, sugar syrups and to the sugar content of processed products. No MCAs are applied to trade in sugar beet, sugar cane, or molasses.

**Trade with non-EEC countries**

36. The import into, or export from, the Community of sugar and of the other products covered by the regime, including 'C' sugar, is subject to the issuing of an import or export licence. Without such a licence Community sugar may not be traded with third countries. A deposit has to be lodged when the licence is applied for, which is forfeited if the transaction does not in fact take place during the period of the validity of the licence.

**Imports**

37. As described in paragraph 16, a threshold price is set each year for each of the major traded sugar products. This represents the minimum price at which non-preferential imports from third countries are to be allowed to enter the EEC. When the world price is below this level a charge is levied to offset the differential. In setting this levy the Commission must take into account:

(*a*) offers on the world market;

(*b*) quotations on exchanges which are important to the international sugar trade;

(*c*) prices recorded on important markets in third countries; and

(*d*) sales concluded in international trade.

**Exports**

38. When the Community's internal prices are significantly higher than those on the world market, it would be impossible for the Community's manufacturers and traders to dispose of their exportable surpluses of 'quota' sugar in the absence of some financial mechanism to bridge the gap. The Community uses export refunds to cover the difference between world market prices and 'prices within the Community'. The refunds apply not only to the main products covered by the sugar regime but also to the export of processed products containing sugar. Where world market prices are higher than Community internal prices a levy must be paid in respect of all 'A' and 'B' quota sugar that is exported.

39. In practice the Community's use of export refunds is the principal way in which it supports its domestic market prices, as it grants refunds on whatever quantity of sugar it judges to be surplus to internal needs. As a result, very little use of intervention buying is actually made in the sugar regime. Producers with sugar in excess of that which they can expect to sell in their national markets may make their own arrangements to sell or export the sugar to another member of the EEC or outside the Community. The Danish sugar company, De Dankse Sukkerfabbrikker, has in this way built up a

substantial export trade to the United Kingdom using a London sugar broker as its agent. Alternatively, and perhaps more usually, producers will sell the excess sugar to sugar traders at, or perhaps marginally above, intervention price plus the storage levy. The trader will then seek a market for the sugar, relying for profit on his knowledge of the EEC and world markets and, in relation to exports outside the EEC, his ability to judge the best time to apply for an export licence.

40. Export refunds for sugar apply both to Community beet and cane sugars and to sugars produced from preferential sugar imports. The refunds on the main sugar products take two forms. First, there is a standing export refund for sugar, which is available at all times. The level of the refund is normally fixed fortnightly by the Sugar Management Committee and is primarily meant to cover the export of small quantities of sugar. When fixing the refund to be applied, account has to be taken of:

(*a*) the intervention prices in the area of greatest surplus within the Community;

(*b*) transport costs from the area of greatest surplus to Community ports;

(*c*) 'trade expenses and any trans-shipment, transport and packaging charges incurred in marketing sugar on the world market';

(*d*) world sugar prices; and

(*e*) 'the economic aspect of the proposed exports'.

41. The second type of export refund is fixed by means of export tenders in which traders bid for the level of refund they need in order to be able to compete on world markets. It is through these tenders that the great bulk of Community sugar is exported. The export tenders are held weekly. Bids are submitted by Community sugar traders. The intervention agency communicates the bid to the Sugar Management Committee, maintaining the anonymity of the original bidders. The Management Committee then fixes the amount of the refund on the basis of the most competitive bids, up to the quantity which is available for export.

42. In setting the maximum refund or minimum levy to be applied, the Sugar Management Committee takes account of spot forward prices and movements since the previous tender. It also has to consider the quantity of surplus sugar available for export in the Community in order to regulate exports in an orderly manner. The system provides considerable room for judgment and enables movements in other commodity markets and in the money market to be taken into account when necessary. Table 3 indicates the approximate cost of EEC sugar exports over the period 1975–76 to 1978–79.

43. When world sugar prices are above the EEC intervention level a levy is payable on all sugar which is exported outside the EEC. The arrangements for the setting of the levy are the same as for the refunds. The sugar regime also provides for refunds or levies on sugar exported in processed products although these are not covered in this appendix.

TABLE 3 **The cost of Community sugar exports from 1975–76 to 1978–79**

| | *Sugar exports from the EEC (in million tonnes)* | | | *Re-exports equivalent to ACP sugar* | | *Net exports of community sugar* | | *Levies paid by producers of 'B' sugar* | *Net expenses or receipts of FEOGA for community sugar* |
|---|---|---|---|---|---|---|---|---|---|
| | *Total* | *Outside quota* | *Maximum quota* | *Quantities in MT* | *Cost in M UA* | *Quantities in MT* | *Cost in M UA* | *in M UA* | *In M UA* |
| 75–76 | 1·395 | 0·097 | 1·298 | 1·298 | 51·3 | — | — | — | 0 |
| 76–77 | 1·665 | 0·153 | 1·512 | 1·415 | 259·1 | 0·097 | 17·7 | 121·3 | +103·6 |
| 77–78 | 3·424 | 0·793 | 2·631 | 1·333 | 310·1 | 1·298 | 301·9 | 185·9 | −116 |
| 78–79 (prov) | 3·400 | 0·800 | 2·600 | 1·300 | 325·0 | 1·300 | 325·0 | 192·5 | −132·5 |
| TOTAL | | | | | 957·7 | | 644·6 | 499·7 | −144·9 |

*Source* CIBE.

## Appendix 3

*(referred to in paragraph 3.20)*

# S & W Berisford Limited Group Structure

**FOOD AND DRINK DIVISION**

| | | |
|---|---|---|
| **Consumer Foods** | | |
| S & W Berisford (Foods) Ltd<br>Haigh Castle & Co Ltd<br>Joy to Eat Foods Ltd<br>Berisford Espana SA (Spain) | Holmes Chapel, Cheshire, London, Newcastle upon Tyne and Murcia, Spain | Importers and distributors of canned fish, meat, fruits and vegetables which are sold either under own labels or customer labels to both retail and catering trades. |
| **Bulk Foods** | | |
| S & W Berisford (Mark Lane) Ltd<br>Demby Hamilton & Co Ltd<br>T M Duché & Sons (UK) Ltd | London | Importers and distributors of dehydrates, nuts and nut meats, dried and preserved fruits and vegetables, industrial and edible gums, essential oils and cocoa products to industrial users, bakers, manufacturers, processors and packers. Also the pasteurisation of dessicated coconut for supply to manufacturing industry. |
| RDM Corporation (USA) | San Francisco | Exporters of nuts, pulses and lentils and dried fruits to European trade houses including Berisford's bulk foods division. |
| J F Braun Inc (USA) | New York | Distributors of imported and domestic cocoa products, nuts and nut meats, dried and preserved fruits and vegetables to both retail and manufacturing trades. |
| **Manufacturing** | | |
| Haven Foods Ltd | Holmes Chapel, Cheshire | Processors and distributors of imported dried fruits, nuts and cereals (mainly rice), dried peas, which are sold under own label or customer label in both retail and catering pack sizes. |
| H E Daniel Ltd | Tunbridge Wells, Kent | Manufacturers of perfume compounds, flavouring essences and raw materials mainly for overseas cosmetic and flavour industries. |
| Matthew Walker (Derby) Ltd | Heanor, Derbyshire | Manufacturers of high class Christmas puddings, mincemeat, canned fruit cakes and lemon cheese, under own label or customer label (including Harrods and Macy's) both for domestic and overseas markets. |
| The British Pepper & Spice Co Ltd | London, Holmes Chapel, Blisworth and Northampton | Pepper and spice millers, manufacturers of oleo-resins, herb processors, blenders and packers mainly under customer labels. |
| Jaf-Ora (UK) Ltd | Holmes Chapel, Cheshire | Production of fruit juices (mainly orange and grapefruit) from concentrates, bottling of fruit squashes, for distribution under own label and customer labels to the grocery, supermarket and cash and carry trades. |

| | | |
|---|---|---|
| London Analytical & Bacteriological Media Ltd | London and Salford | Production of a range of bacteriological plates for supply both domestically (including all UK health authorities) and for export. |

**Wines and Spirits**

| | | |
|---|---|---|
| Capital Wine & Travers Ltd | London and Harwich | Importers, bottlers and merchants of a wide range of wines and spirits (including specialist spirits such as Sake and Busbag). |

## MEAT DIVISION

| | | |
|---|---|---|
| City Meat Wholesalers Ltd | Nuneaton, Truro, Hordley, Ellesmere | Slaughterers of sheep and cattle for supply in various forms for domestic and export markets. |
| Castlebar Bacon Co Ltd (Eire)<br>Monaghan By-Products Ltd (Eire) | Castlebar, Co Mayo<br>Monaghan, Co Monaghan | Slaughterers of pigs and cattle for supply in various forms to domestic Eire and export markets; production of bacon, sausages and cooked hams; processing of fat and bone for tallow and bone-meal. |
| WMZ Meats Ltd<br>EEC Foods GmbH (Federal Republic of Germany) | London<br>Hamburg | Importers and exporters of meat in cut and carcase form. |

## COCOA PRODUCTS

| | | |
|---|---|---|
| Wessanen Cacoa BV (Netherlands)<br>Kascho Kakao-und Schokoladenwerke GmbH (Federal Republic of Germany) | Wormerveer, Netherlands.<br>West Berlin | Manufacture of cocoa powder, cocoa liquor, cocoa butter and couverture. |

## COMMODITIES DIVISION

| | | |
|---|---|---|
| J H Rayner (Mincing Lane) Ltd<br>Margulies (Sugar) Ltd<br>Berisford Commodities Ltd<br>Lonray Inc. (USA)<br>Lonray (Sugar) Inc (USA)<br>Rayner Berisford BV (Netherlands)<br>Berisford Commodities BV (Netherlands)<br>Matagalpa BV (Netherlands)<br>David Sclanders & Co Ltd. | London, New York, Amstelveen (Holland), Glasgow | Commodity brokers and merchants dealing principally in cocoa, coffee, sugar, metals, nuts, oil-seeds and tea on an international basis, and the provision of shipping, insurance, warehousing, handling and delivery services for producers and ultimate purchasers. |
| Rayner-Harwill Ltd | London | Research and consultancy for metals industry, producing weekly metals reports and undertaking in-depth research assignments; 'futures' brokers for clients. |
| Erlanger & Company Inc (USA)<br>Berisford Metals Corporation (USA) | New York, London<br>Tokyo, Manila and Zug (Switzerland) | Merchants and suppliers to industrial users of ferrous and non-ferrous metals, both primary and secondary and in ores, minerals and steel, dealing mainly in the 'physical' markets. |
| Interhansa Zuckerhandels GmbH | Munich | Exporters of EEC Sugar, (particularly German domestic sugars), to the world markets. |

**SUGAR DIVISION**

| | | |
|---|---|---|
| S & W Berisford (Sugar) Ltd<br>Borlands & Sclanders Ltd<br>General Sugar Traders Ltd<br>Commodity Producers & Packers Ltd<br>Hardisty Commodities (Sugar) Ltd | Birmingham, London<br>Liverpool, Bristol, Leeds,<br>Glasgow, Manchester<br>and Blackpool | Merchants of British refined and EEC sugars. |

**WOOL DIVISION**

**Merchants**

| | | |
|---|---|---|
| Edward Haigh (Wool) Ltd<br>Moss & Laurence Ltd<br>Berisford Lefèbvre Ltd<br>Textile Commodities Ltd<br>Nettl Dyson & Co Ltd<br>I & H White & Co (Wool) Ltd | Elland and Bradford, Yorks | Merchants of all types of imported and domestic wools to both UK and overseas users in original or cleaned and blended forms. |

**Processors**

| | | |
|---|---|---|
| Jarmain & Son Ltd<br>Harold H Haigh & Sons Ltd<br>Wenlock Wool Scouring Co Ltd | Huddersfield and Halifax | Commission wool scourers, carbonisers, bleachers, blenders and greasy machiners. |

**BY-PRODUCTS DIVISION**

| | | |
|---|---|---|
| Granox Ltd<br>S E & M Blowers Ltd<br>Harrison Barber & Co Ltd<br>Gelatine Products Ltd | Widnes, Murton,<br>London, Croydon,<br>Sutton Weaver | Animal by-products, chemical waste recovery, pet food manufacturers; manufacturers of edible and pharmaceutical gelatine for the confectionery and pharmaceutical industries. |

**TANNING DIVISION**

| | | |
|---|---|---|
| Holmes Halls Tanners Ltd | Hull | Leather tanning for the footwear, fashion, upholstery and saddlery trades. |

**SECONDARY METALS DIVISION**

**Tom Martin**

| | | |
|---|---|---|
| Tom Martin Metals Group Ltd | Blackburn | Holding company. |
| Tom Martin & Co Ltd | Blackburn | Metal processors (non-ferrous). |
| Martin Metals (Non-Ferrous) Ltd | Glasgow | Metal processors (non-ferrous) |
| Aston Metal Co Ltd | Wilnecote | Metal merchants. |
| Charles Corry (Metals) Ltd | Manchester | Ferrous metal merchants and processors. |
| R G Holland & Co Ltd<br>RGH Special Steels Ltd | Sheffield | Manufacturers of ferro alloys and stainless steel stockholders. |
| Diversa Metals Ltd | Wilnecote | Nickel alloy and other high grade metals processors. |

**Tame Valley**

| | | |
|---|---|---|
| Tame Valley Alloys Ltd | Wilnecote | Manufacturers of aluminium alloy ingots, etc. (secondary smelting). |
| Wilnecote Castings Ltd | Tamworth | Manufacturers of pressure and gravity diecastings. |
| Tame Valley Assays Ltd | Wilnecote | Assayers. |
| Reliance Alloys Ltd | Wilnecote | Merchants of aluminium alloy ingots. |
| William E Dunn (Aluminium) Ltd | Wilnecote | Merchants of deoxidants. |
| TVA Silver Extractors Ltd<br>TVA (Noble Metals) Ltd | Wilnecote | Reclamation of precious metal from waste products. |
| Avon Metals Ltd | Gloucester | Manufacturers of aluminium alloy ingots (secondary smelting) |

**Coley Metals**

| | | |
|---|---|---|
| Coley Metals Ltd | Hayes | Holding company. |
| R J Coley & Son (Hounslow) Ltd | Hayes | Metal processors (non-ferrous) |
| R J Coley & Son (Bristol) Ltd | Bristol | Metal processors. |
| H A Foster (Chertsey) Ltd | Chertsey | Ferrous metal merchants and processors. |

**TURNER CURZON GROUP**

| | | |
|---|---|---|
| Churchill & Sim Ltd | Croydon | 'Del credere' agents for overseas timber suppliers and their UK importers, dealings in both the soft and hard wood markets. |

**Distribution**

| | | |
|---|---|---|
| Ben Turner & Son (Tractors) Ltd | Eastleigh, Tonbridge, Ripley, Maidstone, Chichester, Bishops Waltham, Ashford | Distributors of construction and farm machinery. |
| Power Diesels & Electrical Ltd | Woking, Farnham, Chertsey | Distribution and servicing of diesel engines and fuel injection systems for industrial, agricultural, marine and retail users; distribution of automotive parts and accessories for retail and industrial trades. |
| Anglo-Italian Engines Ltd | Farnham | Sole UK concessionaires for 'Lombardini' air-cooled propane, petrol and diesel engines supplying both industrial and retail users. |

**Manufacturing**

| | | |
|---|---|---|
| Metprep Industrial Products Ltd | Byfleet | Manufacturer of industrial coating and treatment chemicals for ferrous and non-ferrous metals. |
| Byrema Products Ltd | Byfleet | Manufacturers of PVC coatings and mouldings and related adhesives and stripping products. |

| | | |
|---|---|---|
| Resora Ltd<br>Ashton Insulation Ltd | Byfleet, London<br>Keighley | Manufacturers of a range of heat insulating products including cylinder and tank jackets and pipe-lagging; PVC car interiors and moulded products. |
| P W Dilloway Ltd | Swindon, London | Testing and re-conditioning of used equipment and machinery and the manufacture of purpose-built accessory equipment for use in the construction industry. |

**Leasing**

| | | |
|---|---|---|
| Hiretrac Ltd | Ripley | Leasing and contract hire. |

**FINANCE AND INSURANCE DIVISION**

| | | |
|---|---|---|
| Berisford Mocatta & Co Ltd | London | Lloyds' Insurance Brokers. |
| Berisford Mocatta (Underwriting Agencies) Ltd | London | Lloyds' Underwriting Agents. |
| Reginald Baxter & Co (Insurance Brokers) Ltd | | Insurance Brokers. |
| Craneheath Securities Ltd | London | Finance. |

## Appendix 4

*(referred to in paragraph 3.31)*

# S & W Berisford Limited and subsidiaries: summary of turnover and profits

| | *S & W Berisford Limited and Subsidiaries* | | | | |
|---|---|---|---|---|---|
| *(Years ended 30 September)* | *1974–75* | *1975–76* | *1976–77* | *1977–78* | *1978–79* |
| *Turnover* | £690·5m | £768·4m | £1,261·6m | £1,341·5m | £2,170·2m |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Profit before crediting items below | 11,226 | 14,475 | 26,413 | 33,255 | 42,516 |
| Share of profits from associate companies | 746 | 488 | 916 | 989 | 103 |
| Income from investments | 36 | 31 | 32 | 52 | 34 |
| Profit before interest etc | 12,008 | 14,994 | 27,361 | 34,296 | 42,653 |
| Interest | 2,679 | 1,430 | 3,787 | 2,932 | 10,428 |
| Profit before taxation and extraordinary items | 9,329 | 13,564 | 23,574 | 31,364 | 32,225 |
| Taxation | 4,536 | 6,427 | 2,810 | 3,707 | 4,993 |
| Profit subject to extraordinary items etc | 4,793 | 7,137 | 20,764 | 27,657 | 27,232 |
| Deduct: Minority Interests | 108 | 289 | 668 | 1,070 | 1,900 |
| Extraordinary items | 166 | 354 | [36] | 21 | — |
| Sub-total | 274 | 643 | 632 | 1,091 | 1,900 |
| Profit available for distribution | 4,519 | 6,494 | 20,132 | 26,566 | 25,332 |
| Dividends (Preference and Ordinary) | 796 | 1,926 | 2,991 | 3,745 | 6,701 |
| *Retained Profits* | 3,723 | 4,568 | 17,141 | 22,821 | 18,631 |

Notes:

(1) Due to a change which occurred in 1976–77 in the accounting policy relating to deferred taxation, the taxation charge for that and subsequent periods is calculated on a more realistic basis. If this revised accounting convention were applied to 1974–75 and 1975–76 the retained profit is £6,780,000 and £8,071,000 respectively.

(2) Interest relates to that period on bank overdrafts and loans.

APPENDIX 5

*(referred to in paragraph 3.34)*

# S & W Berisford Limited and subsidiaries: cash flow

| *Particulars* | *1974–75* £m | *1975–76* £m | *1976–77* £m | *1977–78* £m | *1978–79* £m |
|---|---|---|---|---|---|
| *Sources of Funds* | | | | | |
| Profit for the year retained for use in the business | 9·6 | 14·3 | 24·4 | 32·5 | 35·4 |
| External: Disposal of Assets | 0·9 | 1·3 | 1·5 | 1·1 | 4·3 |
| Rights Issue | — | 3·4 | 13·4 | — | — |
| Shares issue re-acquisition | 0·2 | 2·6 | — | 2·5 | — |
| Other | 0·1 | 1·6 | 0·1 | — | — |
| | 10·8 | 23·2 | 39·4 | 36·1 | 39·7 |
| *Application of Funds* | | | | | |
| Fixed Assets | 3·3 | 7·0 | 4·5 | 7·0 | 10·7 |
| Working Capital | 1·8 | 38·0 | 40·0 | 49·7 | 66·0 |
| Total re Operations | 5·1 | 45·0 | 44·5 | 56·7 | 76·7 |
| Other: Dividends | 0·5 | 0·8 | 1·9 | 3·0 | 3·7 |
| Taxation | 1·3 | 1·2 | 2·6 | 2·7 | 2·8 |
| Goodwill | 0·1 | 5·7 | 0·2 | 2·3 | 6·6 |
| Minority Interest | 0·1 | — | — | — | 4·0 |
| Loan Stock Redemption | 0·3 | 0·3 | — | 2·5 | — |
| | 7·4 | 53·0 | 49·2 | 67·2 | 93·8 |
| *Positive/[Negative] Funds Flow, subject to currency re-alignment and miscellaneous items* | 3·4 | [29·8] | [9·8] | [31·1] | [54·1] |
| Currency Alignment | 0·4 | 1·1 | [1·8] | [1·0] | [1·0] |
| Miscellaneous | | 0·1 | 0·1 | [0·3] | [0·2] |
| *Increase/[Decrease] in liquid resources* | 3·8 | [28·6] | [11·5] | [32·4] | [55·3] |
| Opening Net Cash Balance/[Overdraft] | [3·7] | 0·1 | [28·5] | [40·0] | [72·4] |
| Closing Net Cash Balance/[Overdraft] | 0·1 | [28·5] | [40·0] | [72·4] | [127·7] |
| *Movement in liquid resources* | 3·8 | [28·6] | [11·5] | [32·4] | [55·3] |

**Notes:**

(1) The movement in funds, shown above, has been affected to a material extent by major acquisitions made by the company during 1975–76 and 1978–79. As a result of such acquisition working capital includes increases of £7·2 million and £5·7 million for those years respectively.

(2) The currency alignment adjustment represents the relative movement of foreign currency against sterling during each year as it affects the translation of overseas based assets and liabilities.

APPENDIX 6

*(referred to in paragraph 4.11)*

# Sugar beet production

### Sugar beet agronomy

1. Sugar beet cultivation is a feature of arable and mixed farming in temperate and sub-tropical climates. In the United Kingdom sugar beet is grown as a break crop, breaking the cycle of cereal crops normally once every four to five years.

2. In the United Kingdom the growing season for sugar beet is approximately eight months, from planting in March/April to lifting in October to December. A notable characteristic of sugar beet is that the sugar yield is heavily dependent both on the soil type and on the weather during the growing season. Ideally a deep, well structured, free draining soil is required with an adequate level of nutrients. The sugar yield is influenced to a lesser extent by the grower's ability to control pests, diseases and weed growth, and so growing techniques are important to produce a healthy crop.

3. Sugar beet is a capital intensive crop. In particular, successful harvesting requires specialist mechanical harvesters, and considerable crop losses can occur if attention is not paid to accurate machine setting and operation. In addition, the processing factories require regular supplies of beet in good condition over a four-month period, which means that the beet harvested in the first half of the campaign may have to be stored by the farmer in clamps before transportation to the processing factories.

4. Apart from the sugar content in the beet, by-products in the form of beet tops (leaves, stems and crowns) are available for use on the farm as fodder and green manure, and beet pulp is produced at the factory in considerable quantities for use as animal feed. A map showing the main sugar beet growing areas, with the approximate sites of British Sugar's factories, is included as Annex 1.

### Sugar beet processing

5. Beet is delivered to the factory in accordance with a programmed schedule designed to maintain factory stocks at a satisfactory level in accordance with production requirements. The storage capacity at each factory is sufficient to allow deliveries to be made 10 hours per day, five and a half days per week.

6. A sample is taken from each lorry upon arrival at the factory and is analysed for dirt, tare and sugar content in order that payment can be made to the grower for his entire consignment in accordance with the sugar beet contract.

7. The remaining beet in the lorry is unloaded into storage areas to await processing. The beets are recovered from storage by water transport systems,

passed through equipment to remove stones and trash, and then washed to remove adhering soil and other foreign matter. Next they are elevated to a storage hopper from which they are fed to machines which slice them into thin chevron shaped strips. These strips pass to diffusion plant where the sugar, together with some impurities which are subsequently removed, is extracted with hot water.

8. Raw sugar-laden juice from the diffuser is pumped into tanks to be mixed with a lime suspension and carbon dioxide gas. The quicklime and carbon dioxide required for this process are produced in kilns on the factory site. This treatment precipitates many impurities, which are removed in filters. The juice is treated with further carbon dioxide and soda ash under fine control conditions and then refiltered.

9. The filtered juice passes to an ion-exchange plant to remove calcium ions and is then treated with sulphur dioxide. It is now known as 'thin juice', which is then greatly reduced in bulk in evaporation vessels. The design of the evaporators is such that the vapour leaving one vessel is employed as the heating medium for the next stage, thus giving maximum economy in heat use.

10. The steam employed in this and all other process heating operations is produced in boilers fired by either coal, oil or gas on the site, and is also used to generate all factory power requirements.

11. The juice is further boiled and concentrated under vacuum. Vapour from the evaporators is used for this purpose so that further fuel economy is achieved. During this stage of the process small crystals form in the juice and grow to produce a viscous mass. This flows to a battery of centrifugal machines. The baskets of these machines have a fine mesh screen and are rotated at high speed to spin off the syrup portion. The remaining crystals are washed with boiling water to remove the adhering syrup.

12. The pure white sugar now passes to a granulator, where it is dried and cooled ready for bagging or for storage in bulk.

13. The syrup from the centrifugals is recrystallised to produce lower grade sugar, which is reprocessed with juice from the evaporators to manufacture further high grade products. This process is repeated with the remaining syrup and, following storage and cooling, the mass is separated once more to produce sugar for reprocessing and syrup which is known as molasses.

14. For a beet processing factory to work efficiently, beet must be delivered in accordance with a programme schedule to match production requirements and capacity. As a rough guide, processing 1,000 tonnes of beet produces approximately:

- 120–140 tonnes of sugar
- 20 tonnes of molasses which is available for sale
- 85 tonnes of molassed pulp (sold either as shredded pulp or pulp nuts)
- 100 tonnes of waste lime.

It will use in this process:

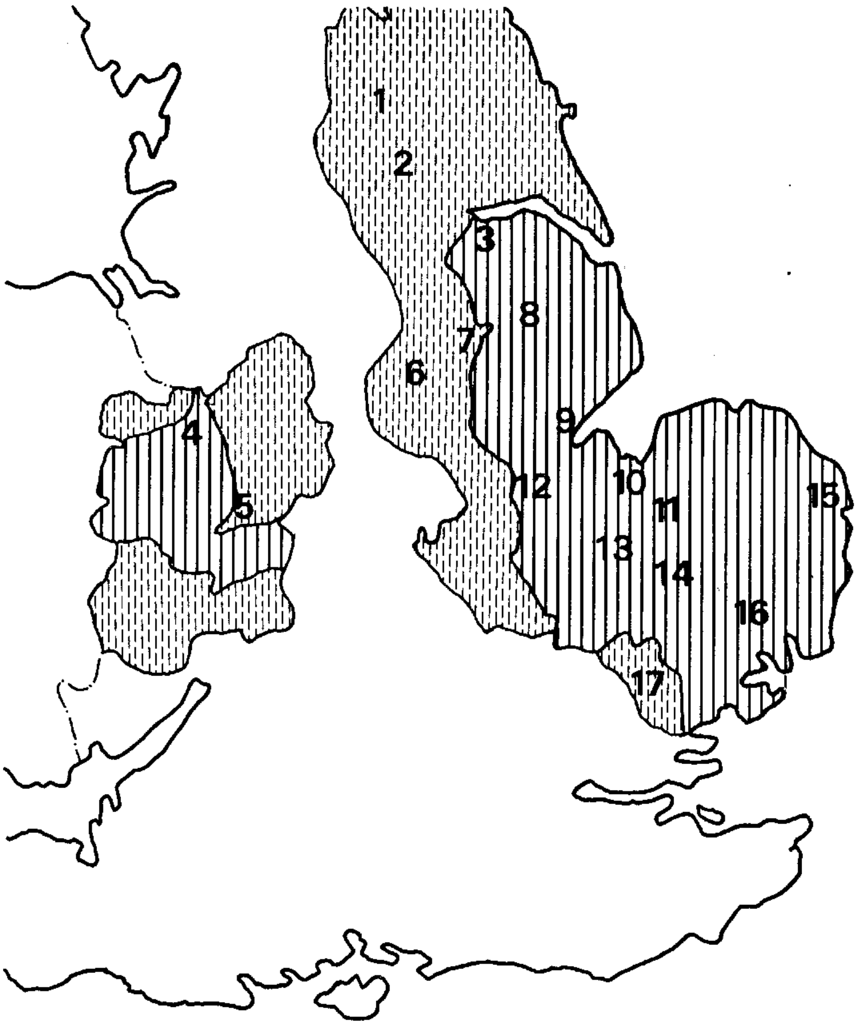
67 tonnes of fuel (oil, coal or natural gas used in main boilers and pulp dryers)
50 tonnes of limestone
4 tonnes of coke (for burning limestone to make lime)

Annex 2 shows the factory process in diagrammatic form.

15. British Sugar's seventeen sugar factories commence operations at the end of September or, if the growing season has been delayed, in early October and work for up to 120 days. During this period production is carried on for 24 hours a day, seven days a week and continues over the Christmas and New Year public holidays.

16. Because of the seasonal nature of beet sugar production, British Sugar recruits an additional 2,000 employees for the production period. The full-time staff at factories are employed on maintenance work during the remainder of the year, and have also carried out a high proportion of the work of installation of new and modern equipment. Much of the design work for additional capacity is carried out 'in-house' by British Sugar staff.

ANNEX I: **Beet Growing Areas and approximate sites of British Sugar Corporation factories**

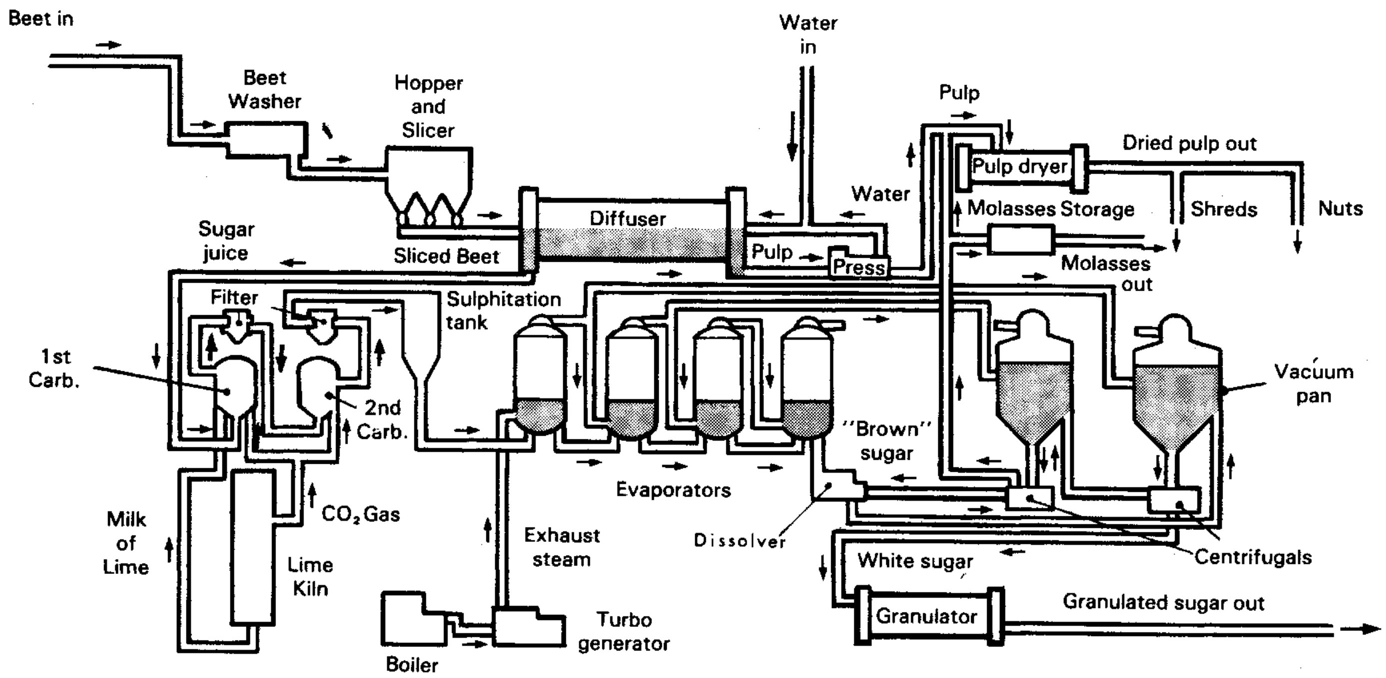



| | | |
|---|---|---|
| 1 York | 7 Newark | 12 Peterborough |
| 2 Selby | 8 Bardney | 13 Ely |
| 3 Brigg | 9 Spalding | 14 Bury St Edmunds |
| 4 Allscott | 10 King's Lynn | 15 Cantley |
| 5 Kidderminster | 11 Wissington | 16 Ipswich |
| 6 Nottingham | | 17 Felsted |

**Major beet-growing areas.**

**Other important beet-growing areas.**

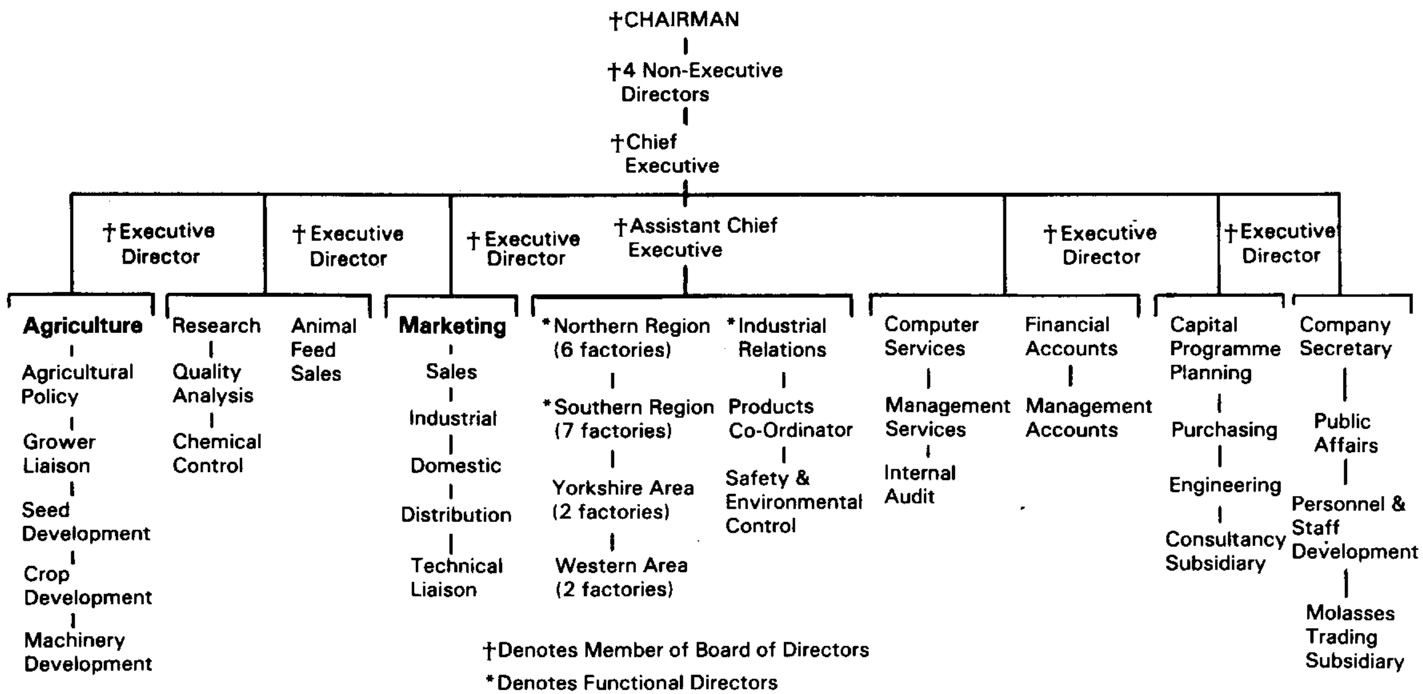
## ANNEX II: Flow diagram of a typical beet sugar factory



APPENDIX 7

*(referred to in paragraph 4.16)*

## British Sugar Corporation Ltd: management structure



APPENDIX 8

*(referred to in paragraphs 4.24 and 4.30)*

# British Sugar Corporation Limited: summary of turnover and profits (historic cost basis)

| | *1974–75* £'000 | *1975–76* £'000 | *1976–77* £'000 | *1977–78* £'000 | *1978–79* £'000 | *1979–80* £'000 |
|---|---|---|---|---|---|---|
| *Turnover* | 115,538 | 206,924 | 268,267 | 304,223 | 381,031 | 439,380 |
| Profit subject to items below | 11,425 | 18,392 | 23,008 | 29,514 | 39,921 | 49,335 |
| Deduct: special contributions to employees' pension schemes | 1,728 | 728 | — | 140 | — | — |
| Profit before interest and taxation | 9,697 | 17,664 | 23,008 | 29,374 | 39,921 | 49,335 |
| Interest (net) | 2,049 | 3,352 | 2,540 | 3,798 | 7,513 | 15,168 |
| Profit before taxation | 7,648 | 14,312 | 20,468 | 25,576 | 32,408 | 34,167 |
| Taxation | 455 | 500 | 1,335 | 1,567 | 1,980 | 3,969 |
| Available for distribution | 7,193 | 13,812 | 19,133 | 24,009 | 30,428 | 30,198 |
| Dividends payable | 844 | 929 | 2,591 | 3,181 | 4,620 | 9,240 |
| *Profit Retained* | 6,349 | 12,883 | 16,542 | 20,828 | 25,808 | 20,958 |

**Notes:**

(1) The profit for 1974–75 includes the write back of a provision made in 1973. The resultant overstatement of profit for that year is not considered to be material.

(2) The retained profit for 1974–75 and 1975–76 (based on the published accounts of those years) are affected by a subsequent change in the accounting convention relating to the treatment of regional development grants. The restatement for those two years would not show any materially different results.

(3) In 1978–79 the accounting policy relating to stock valuation was altered. Had this adjustment been incorporated in the previous year (1978–79) the profit retained would decrease by almost £0·9 million from £25·8 million to £24·9 million.

## APPENDIX 9

*(referred to in paragraphs 4.24 and 4.30)*

# British Sugar Corporation Limited: sources and application of funds

| *Particulars* | *1974–75* £'000 | *1975–76* £'000 | *1976–77** £'000 | *1977–78* £'000 | *1978–79* £'000 | *1979–80* £'000 |
|---|---|---|---|---|---|---|
| *Sources of funds* | | | | | | |
| Profit for the year (including depreciation) retained for use in the business | 11,191 | 19,036 | 25,982 | 32,085 | 40,593 | 40,678 |
| External: Govt. grants | 181 | 126 | 81 | 12 | 71 | 445 |
| Loan capital | — | 5,000 | 10,000 | — | 20,500 | 19,500 |
| Rights issue | — | — | 18,119 | — | — | — |
| *Total* | 11,372 | 24,162 | 54,182 | 32,097 | 61,164 | 60,623 |
| *Application of Funds* | | | | | | |
| Fixed assets (net) | 13,840 | 13,695 | 29,938 | 35,910 | 35,662 | 29,081 |
| Additional Working Capital | 23,237 | [17,740] | 16,974 | 11,476 | 19,722 | 32,578 |
| Total for operation | 37,077 | [4,045] | 46,912 | 47,386 | 55,384 | 61,659 |
| Other: Dividends | 791 | 1,308 | 984 | 3,062 | 3,280 | 5,181 |
| Taxation | 465 | 501 | 500 | 1,335 | 2,034 | 2,231 |
| Debenture Repayment | — | — | 300 | 300 | 300 | 300 |
| Loan Repayment | — | — | — | — | 10,000 | — |
| *Total* | 38,333 | [2,236] | 48,696 | 52,083 | 70,998 | 69,371 |
| *Increase/[Decrease] in liquid resources* | [26,961] | 26,398 | 5,486 | [19,986] | [9,834] | [8,748] |
| Represented by: | | | | | | |
| Net opening cash/[Borrowings] | 4,475 | [22,486] | 3,912 | 9,398 | [10,588] | [20,422] |
| Net closing cash/[Borrowings] | [22,486] | 3,912 | 9,398 | [10,588] | [20,422] | [29,170] |
| *Movement in liquid resources* | [26,961] | 26,398 | 5,486 | [19,986] | [9,834] | [8,748] |

* The figures relating to 1976–77 incorporate the revised policy regarding the accounting treatment of regional development grants. This adjustment, made above, increased both retained profit for use in business and fixed assets by some £1·1 million.

APPENDIX 10

*(referred to in paragraphs 4.28 and 4.30)*

# British Sugar Corporation Limited: value added statements

| *Particulars* | *1974–75* £m | *1975–76* £m | *1976–77* £m | *1977–78* £m | *1978–79* £m | *1979–80* £m |
|---|---|---|---|---|---|---|
| Turnover | 115·5 | 206·9 | 268·3 | 304·2 | 381·0 | 439·4 |
| Bought in goods and services | 81·5 | 162·4 | 211·3 | 232·6 | 289·8 | 332·1 |
| *Value Added* | 34·0 | 44·5 | 57·0 | 71·6 | 91·2 | 107·3 |
| Distributed to: | | | | | | |
| Employees | 20·9 | 22·2 | 25·9 | 33·0 | 40·3 | 49·0 |
| Lenders of Capital | 2·0 | 3·4 | 3·8 | 3·8 | 7·5 | 15·2 |
| Shareholders | 0·8 | 0·9 | 2·6 | 3·2 | 4·6 | 9·2 |
| Sub-total | 23·7 | 26·5 | 32·3 | 40·0 | 52·4 | 73·4 |
| Payments or provision for tax and levies (note) | 0·5 | 0·4 | 3·8 | 4·3 | 4·8 | 6·4 |
| Balance being provision for maintenance and expansion of assets | 9·8 | 17·6 | 20·9 | 27·3 | 34·0 | 27·5 |
| *Total, as above* | 34·0 | 44·5 | 57·0 | 71·6 | 91·2 | 107·3 |

**Note:**
The provisions in respect of tax for 1974–75 and 1975–76 have been restated to conform with the currently adopted accounting treatment for deferred taxation.

APPENDIX 11

*(referred to in paragraph 4.30)*

# British Sugar Corporation Limited: comparative financial information for 1978–79 (restated) and 1979–80 based on revised accounting policies adopted in 1979–80

| | *1978–79 (Restated)* | *1979–80* |
|---|---|---|
| *Financial Results* (see Appendix 8) | £'000 | £'000 |
| Profit before interest and taxation | 39,029 | 49,335 |
| Profit retained | 24,916 | 20,958 |
| *Sources and Application of Funds* (see Appendix 9) | | |
| *Sources of Funds* | £'000 | £'000 |
| Profit for the year retained for use in the business | 39,701 | 40,678 |
| External Sources | 20,571 | 19,945 |
| *Total* | 60,272 | 60,623 |
| *Application of Funds* | | |
| Fixed Assets (net) | 35,662 | 29,081 |
| Additional Working Capital | 18,830 | 32,578 |
| Other Applications of Funds | 15,614 | 7,712 |
| *Total* | 70,106 | 69,371 |
| Decrease in liquid resources | (9,834) | (8,748) |
| *Value Added* (see Appendix 10) | £m | £m |
| Turnover | 381·0 | 439·4 |
| Bought in goods and services | 290·7 | 332·1 |
| Value Added | 90·3 | 107·3 |
| Distributed to: | | |
| Employees, Lenders of Capital and Shareholders | 52·4 | 73·4 |
| Payment or provision for tax and levies | 4·8 | 6·4 |
| Balance being provision for maintenance and expansion of assets | 33·1 | 27·5 |
| *Total, as above* | 90·3 | 107·3 |

APPENDIX 12

*(referred to in paragraph 6.10)*

## A statement of British Sugar's policy towards the merchants

At the request of several of the United Kingdom sugar merchants, British Sugar Corporation sets out below the policy which it has arrived at after discussion with a representative of the merchants.

British Sugar's policy is to deal with all those who wish to buy its products.

British Sugar and the merchants recognise that it is the customer who will decide on the method of trading which best suits him.

British Sugar will therefore continue to handle through merchants the business of those customers who wish to use the services of merchants, and establish direct accounts with those customers who prefer to deal direct.

British Sugar publishes its list prices and terms and conditions of sale. In negotiating prices and conditions of sale based on these with individual customers, there will be offered no financial inducements (or other inducements which are not inherent in a direct dealing relationship) to deal direct with British Sugar. It is accepted that there may be some inherent advantage in dealing direct, as there may be in dealing with a merchant. This said, the prime role of British Sugar's selling force is to promote the sale of British Sugar's products, and not to influence customers in their method of trading.

Negotiations concerning sugar types and quality, delivery points, delivery periods, volumes, prices and all other terms will be conducted by British Sugar; where a customer requires, the merchant may participate in the negotiations. In exceptional and specific circumstances and where previously agreed between British Sugar and the customer, the merchant may carry on the negotiations on behalf of the customer. At an operational level British Sugar will maintain its direct contact with the customers to ensure the efficient level of its service.

All customers who wish their orders to be placed through merchants will be invoiced by the merchant in the usual way and British Sugar will send any balancing payment to those customers. It is not British Sugar's intention to introduce net invoicing above the present level so that any new direct customers would be in the same position as customers who place their orders through merchants in this respect. Should developments compel it, British Sugar will only implement any extension of net invoicing in a way which does not discriminate against customers dealing through merchants, and after discussion with the merchants. Generally British Sugar will ensure so far as practicable that the method of invoicing and payment does not differ materially between those customers who choose to deal direct and those who continue to deal through merchants. British Sugar will make available to the merchants any improvements there may be in British Sugar's accounting services at the same time as these are offered to customers who deal direct.

British Sugar will continue to operate a consistent credit policy taking into account the particular circumstances of individual buyers.

British Sugar accepts that many customers will continue to deal through a merchant. British Sugar's services, and full range and availability of products, will be available to all customers whether direct or not. British Sugar will keep all those involved in the purchase of its sugar fully and promptly informed of any changes in British Sugar's terms of trading and policy.

British Sugar understands that the merchants accept this statement and that the merchants will continue to promote the full range of British Sugar's products as actively and fairly as those of any other sugar producer or brand.

It is agreed that any publication of this statement will be in full.

Printed in England for Her Majesty's Stationery Office by Bemrose Specialist Print, Derby
Dd 164001 C28 3/81

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ISBN 0 10 224181 3