

**PDM's breaches of the 1986 gut-room undertakings: detailed
recommendations**

1. PDM should use a standard form for the monthly statement it prepares for each of its gut-rooms. Inter-company transactions should be shown separately from those with third parties, and volumes and unit prices should be recorded. Units of measurement, eg head, tonnes, kg, should be on a uniform basis between gut-rooms. A draft form is at Annex A.

2. PDM should continue to submit an audited annual statement to the DGFT, within nine months of the end of the relevant accounting period. For each gut-room contract PDM should submit to the DGFT a schedule on which the 12 monthly statements described in paragraph 1 above are summed to give annual totals. The sums of these individual gut-room schedules should agree with the audited accounts of the gut-room subsidiary, or be reconciled thereto. The statement should be audited by registered auditors specified or approved by the DGFT (the auditors).

3. The DGFT should agree with PDM a basis for allocating a fair proportion of its total overheads to its gut-room operation, on the lines set out in Annex B.

4. PDM should satisfy the DGFT that transfer prices between its gut-rooms and its other businesses are open-market prices, reconcilable with its published prices in order to help to ensure even-handed treatment:

(a) between PDM's own gut-rooms and those operated by its competitors; and

(b) between abattoirs which employ PDM in their gut-rooms and those which do not.

5. PDM should retain sufficient detailed records to support the transfer prices referred to in paragraph 4 above for three years or such other time as the DGFT may determine. These records should include all purchases of raw materials from, and sales of materials and products to, third parties.

6. PDM's undertaking to submit a budget to the DGFT in advance of taking on any new gut-room should continue in force. Prices for raw materials used in such budgets should be current open-market prices.

7. PDM should arrange with the auditors that they should, in their report on the annual statement to the DGFT, verify *inter alia* that:

(a) the statement is in agreement with the accounting records of the gut-room subsidiary; and

(b) the overhead charge has been computed in accordance with the formula agreed by the DGFT.

Monthly gut-room statement

<i>Abattoir:</i>	<i>Month ended:</i>		
	<i>Units</i>	<i>Price (Expense)</i>	<i>Income</i>
Headage income/(expense)			
Cattle	ea.		
Pigs	ea.		
Sheep	ea.		
Total headage			_____

Sales to third parties			
Sheep gut (runners)	..		
Pig gut (runners)	..		
Pig pancreas	Kg.		
Pigs maws	..		
Spleens	..		
Total third-party sales			_____

Inter-company sales/(charges)			
Best fat	Kg.		
Other fats	Kg.		
Offal	Kg.		
SBO	Kg.		
Other rendering materials:	Kg.		
Total rendering materials			_____

Tripes	ea.		
Manifolds	..		
Beef udders	..		
Reeds	..		
Sheeps paunches	..		
Total other materials			_____

Operating expenses third-party			
Wages	men		
National Insurance			
Laundry			
Water			
Waste disposal			
Transport			
Depreciation			
Inter-company			
Transport			
Overheads			
Total operating expenses			_____

Net profit/(loss)			_____

Allocation of overheads to gut-rooms

1. The DGFT should obtain from PDM a schedule listing its overheads for its most recent financial year, showing those which are directly attributable to gut-rooms, those which are indirectly attributable and those from which the gut-room operation of PDM derives no benefit.
2. Direct overheads should be charged to the gut-rooms concerned.
3. The portion of indirect overheads allocable to the gut-room operation should be calculated, on a basis to be approved by the DGFT, and charged by PDM to its gut-room operation and thence to individual gut-rooms.
4. In order to ensure that PDM's gut-rooms do not operate on terms that are likely to disadvantage its competitors unfairly, PDM should also submit to the DGFT a separate calculation of the overheads of its gut-rooms on a stand-alone basis (see paragraph 3 of Appendix 6.3). If the amount so calculated exceeds the sum of its direct overheads and indirect overheads allocated as above to its gut-rooms, this higher amount should be substituted as the charge by PDM to its gut-room operation.