

# **Animal waste**

A report on the supply of animal waste  
in England and Wales and in Scotland



MONOPOLIES AND MERGERS COMMISSION

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in England and Wales and in Scotland

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
September 1993**

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<sup>1</sup>These members formed the group which was responsible for this report under the chairmanship of Mr P H Dean.

## **Note by the Department of Trade and Industry**

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

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# 1 Summary

1.1. We have been asked to investigate the supply of animal waste in England and Wales, and in Scotland (see Appendix 1.1.)

1.2. This is our third report concerning the animal waste industry. The first report, submitted in January 1985, was on the supply of red meat animal waste in Great Britain as a whole (the 1985 report).<sup>1</sup> As a result of the report PDM (see paragraph 1.3) gave a number of undertakings concerning its future behaviour (the 1986 undertakings-Appendix 1.2). We are required to deal with England and Wales, and Scotland separately, and to include poultry waste. The second report, submitted in June 1991, was on the merger of Prosper De Mulder Ltd and Croda International plc (the Croda report).<sup>2</sup>

## The monopoly situations

1.3. We find a monopoly situation in England and Wales in favour of Prosper De Mulder Ltd and certain subsidiary and related companies, which are all owned by the De Mulder family and are managed as a single entity. We refer to these companies as PDM. PDM processes about 64 per cent of red meat waste acquired for rendering in England and Wales and has over 80 per cent of the commercial market for poultry waste.

1.4. We find a monopoly situation in Scotland in favour of William Forrest & Son (Paisley) Ltd (Forrest) and its ultimate holding company, Hillsdown Holdings plc (Hillsdown). Forrest processes about 71 per cent of red meat waste acquired for rendering in Scotland. All poultry waste produced in Scotland that requires commercial rendering is processed in England.

## The rendering industry

1.5. Red meat waste supplied to the rendering industry in 1992 amounted to almost 1 million tonnes in England and Wales and 150,000 tonnes in Scotland. Commercial renderers in England were supplied with approaching 300,000 tonnes of poultry waste.

1.6. The main categories of animal waste for commercial purposes are offal, fat, bones, blood, and poultry carcasses and feathers. The main sources are abattoirs, some of which operate a gut-room where products of higher value are carefully segregated, and abattoirs sometimes contract out the operation to specialist companies.

1.7. The principal products from rendering animal waste (a mechanical and heat treatment process) are meat-and-bone meal, and tallow. An estimated 390,000 tonnes of meat-and-bone meal (value £53 million) was produced in the UK in 1992 for use mainly in animal feed. Tallow production amounted to an estimated 195,000 tonnes (value £36 million) in that year. Tallows are variously used for soap manufacture, for animal feed, or in the production of chemicals. There are close substitutes for both meat-and-bone meal and tallow in most of these uses. Renderers operate under strict regulatory controls both as regards the safety of their products and the environmental effects of their plants.

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<sup>1</sup>*Animal Waste: a Report on the supply of animal waste in Great Britain*, Cmnd 9470, April 1985.

<sup>2</sup>*Prosper De Mulder Ltd and Croda International plc: a report on the merger situation*, Cm 1611, August 1991.

## **Findings**

### ***England and Wales***

#### ***Pricing***

1.8. The main public interest issues concern PDM's pricing (including charging) policy and practices, and in this respect little has changed since the 1985 report. As before, we are concerned about the prices paid by PDM for high-grade waste and its charges for low-grade waste, and not about prices charged for its end products. We have received allegations from competitors that PDM engages in predatory pricing, and from suppliers that PDM takes advantage of its dominant position by imposing excessive charges for collecting material such as offal or paying unduly low prices for the better material such as bones and best fat.

1.9. There have been cases where PDM took contracts at a loss. It admits that it set charges/payments at a loss during the price war in 1992 but this fell short of predatory pricing in the cases we studied.

1.10. Our study of PDM's pricing also shows that PDM is able to set different charges/payments unrelated to cost differences. In short, PDM engages in discriminatory pricing. It might be thought that intermittent price wars are indicative of a healthy climate of competition in the rendering industry. It seems to us, however, that there is generally little competition amongst renderers. PDM admits that it does not normally compete for other renderers' supplies.

1.11. We conclude that PDM's practice of discriminatory pricing squeezes smaller competitors and restricts competition in rendering in England and Wales.

#### ***The 1986 undertakings***

1.12. PDM has failed to fulfil certain of its 1986 undertakings: the carrying out of the accounting and budgeting arrangements regarding PDM's gut-room operations, and the pre-notification of PDM's acquisition of any animal waste business. In our view these failures are a serious matter.

#### ***Transparency and profitability***

1.13. The financial results of PDM's rendering operations are not sufficiently transparent. Certain PDM companies which do not file accounts incur expenses on behalf of the rendering companies which they rebill with a mark-up. The existence of this mark-up depresses the reported profits of the rendering companies which do file accounts.

#### ***Efficiency***

1.14. Our study of the comparative financial performance of renderers gives little indication that PDM is more efficient than the smaller renderers, and there must be at least some doubt whether it achieves the network benefit claimed from its multi-site operation.

### ***Scotland***

#### ***Pricing***

1.15. Forrest has engaged in discriminatory pricing. This practice has the effect of squeezing its two smaller competitors, restricting competition in rendering in Scotland.

## *Profitability*

1.16. Forrest's profitability reflects higher charges and lower payments for animal waste than would have been the case under more competitive conditions. This situation may be expected to continue.

## *Efficiency*

1.17. Forrest's processing costs per tonne are significantly higher than those of the average of the smaller renderers included in our study of comparative financial performance. However, it earns the highest returns on capital employed of the renderers included in our study.

## **Recommendations**

### *England and Wales*

#### *Remedying the adverse effects on competition*

1.18. PDM should be required to publish weekly, together with detailed related information, a representative sample of prices and charges it has negotiated in the preceding week commencing with the week ending 9 October 1993, in a form approved by the Director General of Fair Trading (DGFT). In addition, PDM should be required to dispose of its moth-balled Market Harborough plant within six months from the publication of our report to a purchaser (not associated directly or indirectly with PDM) approved by the DGFT, and pending disposal the plant should be kept in good repair but not operated.

#### *The 1986 undertakings*

1.19. We make detailed recommendations for tightening the monitoring of PDM's gut-room operations. We add that if the DGFT is not satisfied that PDM is carrying on its gut-room business on an arm's length basis, or if there is a breach of any undertaking given by PDM in respect of its gut-room operations, PDM should be required to dispose of them to a purchaser approved by the DGFT.

1.20. As regards PDM's failure to pre-notify certain acquisitions of animal waste enterprises, PDM should be prohibited from making any such acquisition unless the DGFT has approved it in advance as being in the public interest.

#### *Lack of transparency of published accounts*

1.21. PDM should file with the DGFT, within nine months of the end of each accounting period, consolidated accounts for the whole of the PDM enterprise as defined in paragraph 3.6. These accounts should include detailed segmental information.

### *Scotland*

1.22. Forrest should be required to publish weekly, together with detailed related information, a representative sample of prices and charges it has negotiated in the preceding week, commencing with the week ending 9 October 1993, in a form approved by the DGFT.

## Overview

1.23. Despite the high levels of concentration, the evidence indicates that efficient smaller firms can continue not only to survive but to flourish in the animal waste industry. What is required at present is the minimum amount of additional regulation necessary to curb the over-zealous protection of their supplies of animal waste by the two monopolists, and to stimulate competition. The other renderers make a valuable contribution to the industry and should be encouraged to continue to do so; the preservation of competition for supplies of animal waste is likely to be the best way of ensuring that the public service performed by the industry is provided economically.