ACQUISITIONS (PETFOODS): THE MASTERFOODS CASE

Subject:	Acquisitions Conditions
Industry:	Petfoods (Implications for other industries)
Parties:	Masterfoods Holding Mars Inc Royal Canin SA
Source:	Commission Statement IP/02/263, dated 15 February 2002

(Note. On the face of it, the conditions accepted by the acquiring company in this case are somewhat drastic. In fact, the Commission itself observes that the commitment to divest the business connected to four of the brands concerned will reduce market presence to below the original level in France of the firm being acquired. Whether the commitment was the result of Commission pressure or was freely volunteered by the acquiring company, it seems that the use of the Mergers Regulation to reduce a market share existing before the acquisition is pushing the scope of the Regulation further than it was intended to go.)

The Commission has granted conditional regulatory approval to the proposed acquisition of the French petfood company Royal Canin SA. by Masterfoods Holding, a French subsidiary of Mars Inc. of the United States. Mars has undertaken to divest for the whole of Europe its businesses connected to five of the merged group's petfood brands, namely, Advance, Premium, Royal Chien, Playdog and Brekkies, together with two major manufacturing plants in La Chappelle and Moulin, respectively in the centre (Loir-et-Cher) and south-east of France, as well as all other assets relating to the divested business. The merger cannot be implemented before the conditions have been fulfilled.

Mars is a privately-owned manufacturer of snack foods, ice cream, pet foods and various other products, with headquarters in Virginia (US). Masterfoods Holding is a wholly-owned French subsidiary created in 2000. Mars's pet foods brands include Pedigree, Advance, Cesar, Whiskas and Sheba, which are sold worldwide, and national/regional brands such as Canigou and Brekkies.

Royal Canin is a leading supplier of dry prepared pet food products headquartered in France and listed on the Paris stock exchange. Royal Canin has developed its branded business primarily through sales in specialist outlets throughout the European Union.

The Commission's investigation confirmed that markets for dry prepared food products for cats and dogs are still national in scope, due to appreciable differences among Member States as concerns purchasing patterns, market structures, and marketing strategies.

The six week examination of the transaction identified competition concerns in the French dog food market as well as in Germany for both dog and cat food, regarding in particulatr the fast growing markets for dry food products. These markets are characterised by several large players, including Nestlé, Procter and Gamble and Colgate Palmolive, a number of smaller niche players, as well as own-label products. The products are distributed through traditional grocery shops as well as a wider group of specialist outlets, including pet shops, garden centers, Do-It-Yourself shops, breeders and veterinarians.

In France, Royal Canin is the clear market leader with about a third of all sales of dry prepared dog food products in the year 2000. Without remedies, the merger would have significantly strengthened this leading position, and led to very high market shares in specialist outlets. The commitment to divest the business connected to the brands Advance, Premium, Royal Chien, and Playdog will reduce market presence to below the original level of Royal Canin in France. Three of these brands were among the top-ten best selling products in the year 2000.

In Germany, the overlap between these two strong operators would have occurred in specialist outlets, leading to high overall market shares in particular for dry cat food products. For dry dog food, the divestment of the brands Advance, Premium and Playdog will reduce the overall market shares to below levels raising competition concerns. As regards dry cat food products, the divestment of Brekkies, the third largest individual dry cat food brand in the year 2000, together with the other divested assets, will offer the acquirer broad opportunities to compete with the merged entity.

The divested businesses include brands covering the whole of the quality spectrum and offer a critical mass for a purchaser. Given that strict conditions ensure that a sufficiently strong purchaser will be able to integrate these assets into its own brand strategy and develop them, the Commission concluded that the remedies were appropriate to remove the competition concerns raised during the investigation.

The Commission examined the impact of the acquisition only for the European Union, as pet food products are excluded from the application of the EEA-Agreement between the EU, Norway, Iceland and Liechtenstein. ■

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