

if the current profits of one company are insufficient to meet its ordinary dividend the other is to come to its assistance. The rate of dividend is, however, first agreed between the Boards of the two companies (which have identical membership). No inter-company payment has ever been made under the agreement. The agreement further provides for equalisation of distribution per ordinary share on the same basis in the event of a winding up.

Labour productivity

42. We obtained from Unilever some information about changes in production and numbers of full-time employees in the United Kingdom in the five years to 31st December 1968 in respect of Unilever's three main trading activities:

Food

Detergents and toilet preparations

Animal feeds.

The figures showed an increase in productivity for these three activities together, and also, in respect of foods alone, a substantially faster rate of increase than that in respect of the United Kingdom food manufacturing industry as a whole in the four years to the end of 1967 (for which figures were supplied to us by the Central Statistical Office).

CHAPTER 2

Allied Breweries Ltd

43. Allied Breweries Ltd (Allied) came into existence in May 1961. It is a holding company incorporated to acquire the capital of three brewing companies, Ind Coope Ltd, Tetley Walker Ltd and Ansells Brewery Ltd, all of which are now wholly owned subsidiaries of Allied.

44. Allied told us that "the idea underlying the merger [i.e. the formation of Allied] was to create a strong enterprise having a balanced country-wide coverage of outlets concentrated in the most populous areas, with an emphasis on competition by means of branded products".

45. In terms of production of beer Allied is now the second largest brewery group in the United Kingdom. In 1967 Allied's production was 4.83m bulk barrels,* which represented 15.5 per cent of the total United Kingdom production of beer. With about 10,000 licensed premises, Allied is also the second largest United Kingdom owner of retail outlets. The majority of these, about 8,300, are public houses, but with about 1,700 off-licences Allied is the largest owner of off-licences.

46. When Ind Coope, Tetley Walker and Ansells merged, each already had interests in the liquor trade outside the brewing and distribution and retailing of beer. Among the subsidiaries of Ind Coope, for example, were Grants of St. James's Ltd, substantial wholesale wine and spirit merchants, and Victoria Wine Company Ltd with wine and spirit retail shops.

47. In 1968 Allied substantially increased its interests in wines and spirits, and also in cider and perry, by the acquisition of Showerings, Vine Products

* 36 gallons.

and Whiteway's Ltd. The acquisition of this company made Allied the largest wholesaler and retailer of wines and spirits in the country, and also gave it about a 20 per cent share of the cider market.

48. Besides the regional beers brewed and sold by Ind Coope, Tetley Walker and Ansell's, Allied has a number of nationally marketed beers. These are both bottled and keg Double Diamond, Skol lager and Long Life canned beer. Among Allied's well known brands of liquor other than beer are Harvey's sherries, Cockburn's port, Babydam (perry), Coates, Gaymer's and Whiteway's cider, and Britvic fruit juices.

49. Overseas, Allied has acquired an interest in brewing in East Africa, and has provided the know-how for the modernising and rebuilding of breweries in Kenya, Uganda and Tanzania, and continues to provide technical supervision for these breweries. Allied has also undertaken a similar, but smaller, operation in the West Indies, where it has established breweries in partnership with the Caribbean Development Company.

50. Allied's most important overseas interests are however in the Netherlands. As a result of a decision to move into Europe, Allied in 1968 acquired Verenigde Nederlandse Brouwerijen Oranjeboom NV of Rotterdam (D'Oranjeboom) at a cost of about £6m. Later in 1968 Allied acquired (through D'Oranjeboom) NV Bierbrouwerij "De Drie Hoefijzers" of Breda (The Three Horseshoes) at a cost of about £10m. Allied told us that it was in the process of reorganising and rationalising D'Oranjeboom and The Three Horseshoes and that it had already achieved substantial increases in sales, market shares and profits, and that it now had about 20 per cent of the Dutch beer market as well as an interest in the Dutch wines and spirits and soft drinks market. Allied expects that its operations in the Netherlands will serve as a base for further operations and expansion on the Continent, and also that it may facilitate the sale of English beer in the Netherlands. In addition some exports of barley, vehicles and kegs, which would not have occurred otherwise, have resulted.

51. Allied also told us that, following the acquisition of the two Dutch breweries, it was at the time of our inquiry on the point of concluding negotiations* for a further acquisition in the Netherlands. This is the acquisition of Houweling-Warnink NV, makers of Advocaat. Allied (and formerly one of its constituent companies) has for many years had the agency for Warnink's Advocaat in this country, and now expects to be able to market it in other countries.

52. In 1964 Allied, with Labatt of Canada, Pripp-Bryggerierna of Sweden and Unibra of Belgium, formed a new company called Skol International. The purpose of this was to create a world-wide brand of beer, Skol lager, to license its manufacture in various countries and to market it throughout the world. The number of partners in Skol International has grown to six, with the addition of one brewery company in Austria and one in Portugal. Skol lager is now being manufactured by licensees in 17 different countries and is marketed in 50 countries. Allied has told us that Skol had met with varying degrees of success in different countries.

53. In 1968 Allied's export sales (duty free) amounted to just over £4m, nearly half the sales being to North America. Harvey's sherry has been

* The negotiations have, in fact, been concluded.

successful in the United States, and Allied expected to be able to market it equally successfully in other countries. Allied also expected to be able to increase its exports of whisky and of Cockburn's port.

Organisation and management

54. Following the recent, and substantial, acquisition of Showerings, Vine Products and Whiteway's, Allied is in the process of making some changes in its organisation. At present there are four main operating divisions: brewing; Showerings, Vine Products and Whiteway's; Grants of St. James's; and all overseas operations. All these come under the immediate control of the Chairman and the Chief Executive, as do the finance, administration, legal and secretarial functions. The brewery division is responsible for all brewing operations in the United Kingdom, and in addition a production committee responsible for research and development, production, distribution, and industrial relations, and a marketing committee responsible for sales, market research and advertising are both within this division. There is also an estates committee responsible for the management of its licensed estate.

Research

55. In 1961 Allied decided to set up its own Group Research Department, emphasis initially being placed on applied research projects which showed promise of quick financial return. At present the research department employs about 60 people half of who are science graduates. The department's revenue and capital budgets for 1969 are £130,000 and £12,000 respectively. In addition, Allied makes an annual contribution, £22,000, to the basic research carried out by the Brewing Industry Research Foundation.

56. Allied gave us a substantial amount of information about the chemical, biological and chemical engineering lines of research it has undertaken and hopes to undertake. Briefly, these are concerned with the quality of beer (e.g. flavour, clarity, foam), the more efficient use of materials, and the development and exploitation of new and improved production methods. Allied also described to us the ways in which it believed that its own research would be facilitated and speeded up by access to Unilever's research facilities and to the results of research already done by Unilever. Finally, Allied gave us a substantial list of research projects which were set aside in 1968 owing to lack of financial resources or research staff.

Labour productivity

57. We obtained from Allied figures of beer production and numbers of employees (productive and non-productive) for each of the three main brewery subsidiaries (Ind Coope, Ansells and Tetley Walker) for the period of seven years to 28th September 1968. The figures showed that there were some differences both in the levels of productivity and in the productivity trends throughout the period in the three subsidiaries. We recognise that this is due at least in part to a process of rationalisation of the production facilities of two of the subsidiaries and to consequent interruptions in the flow of production, and also that there are substantial differences in the type of production as between the three subsidiaries; nevertheless, the differences in the productivity figures appeared to be such that there should be some scope for improvement in the average productivity of the three subsidiaries together.

Size of Allied

58. According to "*The Times* 500 Leading Companies in Britain and Overseas, 1968-69", Allied is the 16th largest British industrial company in terms of capital employed. The figure given for Allied is £247·7m, but this does not take account of Allied's 1968 acquisitions. If these are included the total capital employed becomes £302m and Allied probably moves to a slightly higher position in *The Times* list (to 11th place assuming no relevant changes for other companies). In the consolidated balance sheet in Allied's published accounts for 1968 the total net assets (including goodwill) of Allied at 28th September 1968 are shown as £307·3m.

CHAPTER 3

The United Kingdom Drinks Industry

59. While it is unlikely that a merger between Unilever and Allied would have any significant effects in any of the United Kingdom industries in which Unilever is at present operating, it is claimed both by Unilever and by Allied that it would have certain effects on Allied's operations in the United Kingdom and thus probably on the United Kingdom drinks industry.* We therefore give in this chapter a brief outline of the structure of the United Kingdom brewing industry, with references to the wines and spirits, cider and soft drinks industries.

60. The United Kingdom is one of the major beer drinking countries in the world. In 1967, with a consumption of 20·5 gallons per head of population, it ranked seventh and was exceeded only by Czechoslovakia, West Germany, Belgium, Australia, New Zealand and Austria (in that order). However, with a total consumption of 31·4m bulk barrels† the United Kingdom was the third largest national market, and was exceeded only by the USA with 76·6m, and West Germany with 46·8m. The total amount of beer brewed and retained for consumption in the United Kingdom has risen fairly steadily over the last 11 years from 24·2m bulk barrels in 1958 to 30·1m bulk barrels in 1968, an increase of about 24 per cent.

61. The industry has been characterised for very many years by a substantial and continuing reduction in the number of separate breweries. This has been due to the disappearance during the later part of the nineteenth and the early part of the twentieth centuries of the small brewery belonging to and brewing for a single licensed house, and also to a process, which has continued up to the present, of amalgamations and acquisitions resulting in closures of redundant capacity. In 1950, 567 brewers-for-sale licences‡ were issued; in 1960, 358; in 1967, 244. The reduction in the numbers of breweries has been accompanied by an increasing concentration of ownership. In 1967 seven brewers, operating about 70 breweries in the United Kingdom, accounted for 73 per cent of the total United Kingdom production of beer. In that year Allied was the second largest producer, with a total of 4·83m bulk barrels or 15·5 per cent of the

* See Chapter 4.

† We use the term "bulk barrel" to mean a barrel containing 36 gallons. The figure for the USA is expressed in these terms and not in terms of the smaller American barrel.

‡ i.e. licences to brew beer for sale.