

Completed acquisition by Linergy Limited of Ulster Farm By-Products Limited

Appendices and glossary

Appendix A: Terms of reference and conduct of the inquiry

Appendix B: Industry background

Appendix C: Jurisdiction

Appendix D: The Memorandum of Understanding

Appendix E: UFBP financial performance

Appendix F: Competitive effects – third party views

Glossary

Terms of reference and conduct of the inquiry

Terms of reference

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act) the Competition and Markets Authority (CMA) believes that it is or may be the case that:
 - (a) a relevant merger situation has been created, in that:
 - (i) enterprises carried on by Linergy Limited have ceased to be distinct from enterprises carried on by Ulster Farm By-Products Limited; and
 - (ii) the condition specified in section 23(2)(b) of the Act is satisfied with respect to the processing of non-fallen stock (Category 1 and Category 3) and fallen stock in Northern Ireland; and
 - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including the processing of non-fallen stock (Category 1 and Category 3) and fallen stock in Northern Ireland.
2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 11 January 2016, on the following questions in accordance with section 35(1) of the Act:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services.

Andrea Coscelli
Executive Director, Markets and Mergers
28 July 2015

Conduct of the inquiry

3. We published biographies of the members of the inquiry group conducting the inquiry on 30 July 2015, and the administrative timetable for the inquiry was published on the CMA's webpages on 11 August 2015.
4. We invited a wide range of interested parties to comment on the completed acquisition. These included customers and competitors of Linergy and UFBP as well as government bodies. Evidence was obtained from these third parties through hearings, staff meetings, telephone contact and through written requests. Summaries of hearings can be found on our webpages.
5. We received written evidence from Linergy and UFBP, and a non-confidential version of their main submission is on our webpages. We also held a hearing with both parties on 15 October 2015.
6. On 26 August 2015, we published an issues statement on our webpages, setting out the areas of concern on which the inquiry would focus.
7. On 3 September 2015, members of the inquiry group, accompanied by staff, visited the sites of Linden Foods, Linergy and UFBP. Members and staff also visited several other third parties in Northern Ireland between 2 and 4 September 2015.
8. In the course of our inquiry, we sent Linergy, UFBP and other parties some working papers and extracts from those papers for comment.
9. A non-confidential version of the provisional findings report will be available on the CMA webpages.
10. We would like to thank all those who have assisted us in our inquiry so far.

Interim measures

11. We took steps to ensure the separate and independent operation of Linergy and the acquired UFBP business during the course of our inquiry.
12. The CMA imposed an initial enforcement order on Linergy under section 72(2) of the Act on 19 March 2015 for the purpose of preventing pre-emptive action, namely, in this case, avoiding any integration between the businesses of UFBP and Linergy, any transfer of the ownership or control of these businesses, and any impairment of the ability of these businesses to compete independently in any of the markets affected by the transaction, whilst the CMA proceedings were ongoing. Following the reference, this order remains

in force in accordance with section 72(6) of the Act until the final determination of the reference.

13. We also considered whether any changes were necessary to prevent pre-emptive action by the Parties that might prejudice the reference or impede the application of effective remedies at the end of our inquiry should they be required, including assessing the need for a hold-separate manager or a monitoring trustee.¹
14. After considering evidence from the Parties on the post-merger structure of the Parties and the arrangements between them, we decided that the appointment of a monitoring trustee or any other changes were not necessary.

¹ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2, January 2014), from paragraph C.27.

Industry background

1. The current structure of the rendering industry and the uses to which animal products are put has been significantly influenced by the regulations that were developed in response to the identification of BSE. This appendix briefly sets out the history of that disease in the UK and the regulatory response, including how this has affected the rendering industry. It then sets out potential uses for different categories of animal by-products.

The history of BSE

2. In 1986, the first case of BSE, or 'mad cow disease', was identified in a cow in the UK. BSE is a type of TSE and is a fatal neurodegenerative disease in cattle that causes a spongy degeneration in the brain and spinal cord. BSE is caused by a misfolded prion. It has a long incubation period, about 2.5 to 8 years, and usually affects adult cattle. Cattle feed contaminated with pig or poultry feed containing MBM continued to infect cattle after the 1988 ban on the use of MBM in cattle feed.
3. From 1986, the number of BSE cases in the UK increased rapidly to a peak of 37,280 in 1992, with a peak of 459 reached in NI in 1993. From the mid-1990s the number of cases in the UK, including NI, dropped significantly, to below 1,000 in 2003, below 100 in 2007, and below ten in 2011. Since then, the number of cases was three in 2012 and 2013 and one in 2014. In 2015, no cases have been identified so far. In NI, the last BSE case was in 2012.¹ In the RoI, there were no BSE cases in 2014, but one case was identified in June 2015.²
4. The UK government's BSE Inquiry, which reported in 2000,³ concluded that the development of the BSE epidemic resulted from the consumption of contaminated bovine MBM in cattle feed. The MBM had been produced by the rendering of cattle infected with BSE.
5. The BSE Inquiry noted that BSE may have developed in the 1970s, but at first escaped detection. It found that changes in the rendering industry in the 1970s and early 1980s (a switch from batch to continuous processing, the abandonment of solvent extraction of tallow and changes in temperature and

¹ OIE (World Organisation for Animal Health), [Number of cases of bovine spongiform encephalopathy \(BSE\) reported in the United Kingdom](#).

² OIE (World Organisation for Animal Health), [Number of reported cases of bovine spongiform encephalopathy \(BSE\) in farmed cattle worldwide \(excluding the United Kingdom\)](#).

³ See [the BSE Inquiry](#) report, available on the National Archives webpages.

manufacturing techniques in the production of MBM) might have led to the BSE agent surviving the rendering process and therefore being allowed to enter the animal food chain.

6. BSE was initially thought not to have harmful effects in humans, but in March 1996 the government announced that BSE caused New Variant Creutzfeld-Jacob Disease, a deadly brain disease. In response, in 1996 the government banned the feeding of MBM to all farm animals and banned all cattle over 30 months of age from entering the food chain.
7. The impact of the BSE crisis on the rendering industry was to turn it from an industry producing valuable raw materials (which had a wide range of uses) to essentially a waste disposal industry as the market for MBM and tallow virtually disappeared. The government's measures in 1996 included a support scheme for the industry. This scheme was intended to support renderers in maintaining the prices and sales of animal by-products and to compensate them for the build-up of unsaleable stocks and diminished size of the market. The government's scheme was phased out over the following few years.⁴
8. The BSE crisis resulted in significant tightening of the restrictions on the rendering industry and the use and disposal of animal by-products. The regulations implemented since BSE was identified specified a number of animal by-product treatment parameters (related to particle size, temperature, time and pressure) which had to be met during the rendering process. In 1992, the European Commission (the Commission) also commissioned a study to assess how effective the different rendering processes operating in the European Community were at inactivating TSE agents. As a result, the Commission introduced new standards in 1997.⁵ The first EU Regulation distinguishing three categories of animal by-products was Regulation (EC) 1774/2002, which provided for an EU-wide ban on intra-species recycling and ensured that only materials derived from animals fit for human consumption (ie Category 3 material) could be used for the production of animal feed (for other species).

Uses of animal by-products

Category 1

9. In general, Category 1 material has to be incinerated, with or without prior rendering, but rendering allows value to be realised as the tallow and MBM produced from the rendering process can be used as fuels. More specifically,

⁴ Nigel Atkinson (1999), *The Impact of BSE on the UK Economy*.

⁵ DEFRA, [BSE: Disease control & eradication - Causes of BSE](#).

material that comes from animals suspected of having been infected with BSE/TSE or killed in the context of BSE/TSE eradication measures must be disposed of as waste by incineration, either directly or following rendering. Other Category 1 material, including SRM, may instead be disposed of by pressure-rendering followed by burial in an authorised landfill site. Category 1 material may also be used as a fuel, with or without prior rendering. Certain Category 1 material may also be used for the manufacture of derived products, such as medical devices, although we have not looked into the conditions to which this would be subject.

Category 2

10. The disposal methods for SRM also apply to Category 2 material. In addition, after pressure-rendering Category 2 material may be used for the production of fertilisers and in composting or anaerobic digestion plants. Some Category 2 material, including manure, may be applied directly to land provided there is no risk of the spread of a transmissible disease. However, as there are no dedicated Category 2 rendering plants in the UK or the RoI, all rendered material outputs must in practice be treated as Category 1.

Category 3

11. Category 3 relates to material that in principle is fit for human consumption. Material that is used for human consumption, eg bones used to make stocks and soups, or material not conventionally consumed in the UK but for which there may be export markets, is by definition not classified as animal by-products. Meat processors can decide whether to treat that material as intended for human consumption, for industrial/non-human consumption uses (including direct use in approved composting or anaerobic digestion plants, and in the production of raw pet food),⁶ or as Category 3 animal by-products. If the meat processor treats it as Category 3 animal by-products, this material must be disposed of through rendering. As a result, the volume of Category 3 material varies depending on commercial conditions, ie demand and values for other uses for this material.
12. Given that this is low-risk material, there is a much wider range of use and disposal options for Category 3 MBM and tallow in addition to the options for Category 1 and 2 material. In particular, rendered Category 3 material can be used for the production of pet food and organic fertilisers or soil improvers. Rendered Category 3 material can also be used in the production of animal feeding stuffs, though TSE related restrictions on the feeding of processed

⁶ Parties' initial submission, p21.

animal protein severely restrict this. Category 3 tallow can be used for oleochemicals and cosmetics, etc.

Jurisdiction

Introduction

1. Under section 35 of the Act, and pursuant to our terms of reference (see Appendix A), we are required to decide first whether a relevant merger situation has been created by the acquisition of UFBP by Linergy.
2. Section 23 of the Act provides that a relevant merger situation has been created if:
 - (a) two or more enterprises have ceased to be distinct enterprises within the statutory period for reference; and
 - (b) either the turnover test or the share of supply test (or both) is satisfied.

Enterprises ceasing to be distinct within the statutory reference period

3. We considered that each of Linergy and UFBP constitutes an enterprise, since each operates a business that supplies animal rendering services for gain or reward.¹
4. As required by our terms of reference, we considered this statutory question in relation only to the Merger, namely the acquisition by Linergy, under the SSA, of the entire issued share capital in UFBP.²
5. The Merger brought these enterprises under both common ownership and common control³ as Linergy acquired the entire issued share capital of UFBP.⁴
6. Further, we considered that the part of the jurisdictional test that requires us to decide whether enterprises have ceased to be distinct within the statutory period for reference is satisfied. The Parties told us that completion of the

¹ Sections 23(1) and 129(1) of the Act.

² The CMA's [phase 1 decision](#) did not refer SAPI's acquisition of 30% of the shares in Linergy for a phase 2 investigation, since SAPI was not active in the supply of animal rendering services in NI other than through UFBP. The CMA therefore believed that the acquisition of the 30% shareholding in Linergy by SAPI did not give rise to any competition concerns (paragraph 21 of the CMA's phase 1 decision of 17 July 2015).

³ Section 26 of the Act.

⁴ See chapter 4, paragraph 4.12.

Merger took place on 14 May 2015,⁵ ie within the specified period of four months prior to the phase 2 reference, which was made on 28 July 2015.⁶

7. In addition, under section 22(3)(za) of the Act, the CMA must not make a reference for a phase 2 investigation if the period within which the CMA is required by section 34ZA of the Act to decide whether the duty to make the reference applies has expired without such a decision having been made. Under section 34ZA(3) of the Act, for non-notified cases (such as the Merger) this period is 40 working days beginning the day after the CMA informs the merger parties by notice that it has sufficient information to enable it to begin an investigation for the purposes of deciding whether to make a reference.
8. On 22 May 2015, the CMA sent a notice to the Parties under section 34ZA(3) of the Act informing them that it had sufficient information to begin its investigation. The 40-working day period beginning on the first working day after this date ended on 20 July 2015. The CMA decided on 17 July 2015, ie within this period, that the duty to make a reference for a phase 2 investigation applied.⁷

Turnover test/share of supply test

9. The turnover test is satisfied where the value of the turnover in the UK of the acquired enterprise exceeds £70 million.⁸ The turnover of UFBP for the financial year ending 31 December 2014 was around £8.6 million and hence substantially below the £70 million threshold. We therefore considered that the turnover test is not satisfied.
10. The share of supply test is satisfied where, as a result of enterprises ceasing to be distinct, at least one quarter of goods or services of any description which are supplied in the UK, or in a substantial part of the UK, are supplied either by or to one and the same person.⁹ The merger must result in an increase in the share of supply of goods or services of a particular description and the resulting share must be 25% or more.

⁵ The [Parties' Initial Submission](#) states that Linergy entered into a Share Sale Agreement with SAPI for the acquisition of the entire issued share capital of UFBP on 8 May 2015 and that, in conjunction with this, SAPI acquired a 30% interest in Linergy. However, the Parties have since informed us that both transactions completed on 14 May 2015.

⁶ Section 24 of the Act.

⁷ The reference was not made until 28 July 2015. However, under section 34ZA(2) of the Act, this did not prevent the CMA from making the reference because after 17 July it was awaiting a potential offer by the Parties of an undertaking in lieu of a reference under section 73A(1) of the Act. The Parties informed the CMA on 24 July 2015 that they did not wish to make such an offer.

⁸ Section 23(1)(b) of the Act.

⁹ Sections 23(3) and (4) of the Act.

11. The concept of goods or services of ‘any description’ is very broad.¹⁰ The description of goods or services identified for the purposes of the jurisdictional test does not have to correspond to the economic market definition adopted for the purposes of the substantive assessment.¹¹
12. The share of supply test may be applied to the UK as a whole or to a substantial part of it. There is no statutory definition of ‘a substantial part’, but the area or areas considered must be of such size, character and importance as to make it worth consideration for the purposes of merger control.¹²
13. The Parties estimated that, in NI, Linergy’s share in the supply of mammalian by-product rendering services (including Category 1 material, Category 3 material and fallen stock) was around [X]% and UFBP’s share was around [10–20]%, with a combined share of around [40–50]%.¹³ Our own estimates of shares by weight of material processed are set out in Tables 2.1 and 2.2, where, adding together all categories, the Parties’ shares also exceed 25%. The Parties submitted that it was not appropriate to consider these services together as they form separate product markets, and that the geographic market extends beyond NI into the RoI and GB. They submitted that therefore the share of supply test was not met.
14. However, we considered that, for the purpose of determining whether the share of supply test is met, the supply of mammalian by-product rendering services for Category 1 material, Category 3 material and fallen stock could reasonably be taken together given the similarities between the rendering processes (eg the same technical equipment is used) and the large degree of commonality in customers and competitors. We also considered that it was reasonable to consider the supply of these services in NI, which clearly has the requisite size and importance to be a substantial part of the UK.
15. We therefore considered that the share of supply test is satisfied, with the Merger having resulted in both an increase in the Parties’ share of supply and in them having a combined share of more than 25% in the supply of mammalian by-product rendering services in NI.

Provisional conclusion on relevant merger situation

16. In light of the above assessment, we considered that the Merger has created a relevant merger situation.

¹⁰ Sections 23(5) to (8) of the Act.

¹¹ *Mergers: Guidance on the CMA’s jurisdiction and procedure* (CMA2) (January 2014), paragraph 4.56.

¹² *CMA2* (January 2014), paragraph 4.61.

¹³ See *CMA’s phase 1 decision*.

The Memorandum of Understanding

Introduction

1. As set out at paragraph 4.8, SAPI and Lineryg (the MoU Parties) entered into an MoU on 31 May 2012. The main submissions of the MoU Parties in terms of their rationale for entering into the MoU are summarised in Chapter 5. This appendix sets out the detailed arrangements provided for in the MoU and our assessment of these arrangements.

Arrangements if the merger went ahead

2. In clause 2 of the MoU, the MoU Parties agreed certain matters in relation to the merger of UFBP and Lineryg envisaged in the MoU, including the valuations of Lineryg and UFBP. They agreed that, subject to regulatory approvals, it was their intention to complete a merger between Lineryg and UFBP by 30 June 2014 (ie within an approximate two-year period) (clause 2.1).
3. The MoU Parties also agreed that SAPI would acquire 30% of the shares in the combined Lineryg/UFBP company (clause 2.2(c)). In terms of the size of this shareholding, SAPI told us that it had a range of different shareholdings in rendering businesses in different parts of the world and that the size of those shareholdings varies and depends on what was acceptable to the parties in each case.

Valuation of Lineryg

4. The valuation of Lineryg (for the purposes of SAPI's acquisition of 30% of the shares in Lineryg) was agreed in principle at £[REDACTED] (clause 2.2(a)). Lineryg said that this was based on a multiple of [REDACTED] times EBITDA of £[REDACTED].
5. The valuation of Lineryg was subject to the following adjustments (clause 2.2(a)):
 - If [REDACTED]
 - If [REDACTED]

Valuation of UFBP

6. Under clause 2.2(b), the valuation of UFBP was agreed at the amount SAPI would pay for UFBP on a debt-free basis up to a maximum of £[REDACTED].

Subsequently, SAPI paid £[X] to acquire UFBP. The valuation of UFBP would be increased to reflect:

- any payments made by SAPI or UFBP to acquire land/buildings adjacent to UFBP's site; and
- the direct costs borne by SAPI in connection with its acquisition of UFBP up to £[X].

Possible adjustments

7. The MoU Parties agreed further possible adjustments as follows:
 - [X]
 - [X]
 - [X]
8. The MoU also provided for the [X] that SAPI would acquire through its 30% share in the merged entity (clause 2.3), which were followed through in the SPA relating to the sale of shares in Linery to SAPI.

Implementation of the MoU in the SPA and SSA

9. Under the SSA, consistent with the valuations set out in the MoU, Linery acquired the entire issued share capital of UFBP from SAPI for a consideration of £[X], which was satisfied by SAPI receiving [X]% of the shares in Linery. Also consistent with the terms of the MoU, under the SPA, SAPI acquired further shares from Linery's existing shareholders to increase its shareholding to 30% and paid those shareholders an amount in cash equal to [X]% of the value of the combined entity.

Our assessment

10. We assessed how the MoU clauses set out above could have affected the considerations of Linery's shareholders when, between the date of the MoU and the date of the merger envisaged in the MoU, they decided on actions which could affect UFBP. We considered that the main effect was that, if the merger went ahead, Linery's shareholders would be exposed to only 70% of the impact of these actions on Linery's own profits and would at the same time be exposed to 70% of the impact on UFBP (including through a worsened or improved financial position of UFBP when it became a subsidiary following completion of the envisaged merger). There was also [X] and therefore, with the exception of one week, did not cover the period after the

MoU had been signed (since Completion took place seven days after signing of the MoU).

11. We considered that the effect of the MoU clauses set out above was that Linergy's shareholders had an incentive to take account of the impact of their commercial decisions on UFBP as well as on Linergy:
 - If Linergy or its shareholders took actions that damaged Linergy's performance while UFBP benefited, Linergy's shareholders would, if the envisaged merger went ahead, have retained 70% of the benefit to UFBP, compensating for the loss of value to Linergy itself.¹ The impact of the MoU on Linergy's shareholders was therefore that they would be significantly less concerned than would otherwise have been the case about a deterioration in Linergy's performance that was matched by a benefit to UFBP.
 - Conversely, if Linergy or its shareholders took actions that improved Linergy's performance to the detriment of UFBP, Linergy's shareholders would, if the envisaged merger went ahead, not have gained if the impact on UFBP's profits was the same as the impact on Linergy's own profits.
12. In relation to the impact of the MoU clauses set out above on SAPI's incentives, we considered that SAPI had an incentive to take account of the impact of its decisions on Linergy as well as on UFBP:
 - If UFBP performed better at the expense of Linergy, SAPI would, if the envisaged merger went ahead, not have benefited because, after the merger, the UFBP part of the combined entity would be more valuable but the Linergy part would be less valuable.
 - The reverse applies if UFBP had performed poorly to the benefit of Linergy. This is because SAPI would not have suffered this detriment following the envisaged merger.
13. Therefore, we considered that, as a result of the MoU clauses set out above, which would apply if the envisaged merger went ahead, each MoU Party had an incentive to take account of the impact of its decisions on the other MoU Party. This is because the MoU did not provide for any [X]. We considered that, if such a performance-related revaluation had been provided for, the

¹ The Parties submitted that £1 lost by Linergy would not necessarily have translated to £1 gained by UFBP in view of differences between costs and efficiencies as between Linergy and UFBP, and that there is no evidence of the analysis that the Parties would have had to make to ensure that the loss by Linergy netted off against the gain by UFBP. However, we considered that Linergy's shareholders could nevertheless expect to retain at least a significant proportion of the gain by UFBP to compensate for their loss.

incentives would have been different. If, for example, the move of Linergy's shareholders' Category 3 material from Linergy to UFBP in July 2012 resulted in a deterioration of Linergy's performance but an improvement in UFBP's performance, a performance-related revaluation at the time of the SSA/SPA would have given SAPI [REDACTED].² The MoU as drafted meant, as set out above, that the effect on Linergy's shareholders of such a move would be significantly less than would otherwise have been the case.

Arrangements if the merger did not go ahead

14. Clauses 3 and 4 of the MoU set out the arrangements that would apply if the envisaged merger did not take place, for whatever reason (including failure to achieve regulatory approval and the unwillingness of one of the MoU Parties to proceed) (clause 3.1). Clause 3 applied if SAPI decided to sell UFBP or liquidate it. Clause 4 applied if SAPI continued to operate UFBP, but only stipulated what would happen if completion of the envisaged merger was prevented by 'competition or regulatory issues'.
15. In case SAPI decided to sell or liquidate UFBP, the MoU distinguished between several scenarios, depending on the reason the envisaged merger did not take place (clause 3). [REDACTED]:
 - (a) [REDACTED]
 - (b) [REDACTED]
 - (i) [REDACTED]
 - (ii) [REDACTED]
 - (iii) [REDACTED]
16. Linergy submitted that the MoU Parties' intention behind the definition of the Direct Costs was to reflect the costs incurred by SAPI in purchasing UFBP, combined with a reflection of the change in the valuations of UFBP and Linergy in the period between the signing of the MoU and the date when the envisaged merger was no longer pursued.
17. [REDACTED], the MoU provided that [REDACTED]: [REDACTED].

² The lack of a performance-related revaluation mechanism also means that we did not accept the Parties' submission that [REDACTED] gave Linergy's shareholders an incentive to improve their performance. The value of [REDACTED] was, under the terms of the MoU (clauses 2.2(e) and (f)), determined as at [REDACTED] and [REDACTED].

18. The MoU provided further that, [REDACTED].³
19. The MoU also provided that, [REDACTED].
20. [REDACTED]
21. The MoU Parties submitted that these clauses 3 and 4 in the MoU did not provide for all possible outcomes. They stated that [REDACTED].
22. However, we considered that this appeared to be inconsistent with the apparent aim of the MoU, which was to agree the framework under which an envisaged Linergy/UFBP merger and acquisition of a 30% stake by SAPI in Linergy would take place and to provide for arrangements that would apply if these transactions did not take place. In particular, [REDACTED].
23. The MoU Parties further submitted specifically that [REDACTED].
24. We considered that [REDACTED]. This is taken into account in the assessment below.

Assessment

25. [REDACTED]:
 - (a) [REDACTED]
 - (b) [REDACTED]
 - (c) [REDACTED]
 - (d) [REDACTED]
26. The provisions of the MoU meant that [REDACTED] if SAPI or Linergy served an abort notice or the MoU Parties agreed not to proceed, unless Linergy was prevented from doing so because of a regulatory obstacle or SAPI decided to continue to operate UFBP. In that situation Linergy was on risk for the value of UFBP. Also, SAPI [REDACTED] if, following a regulatory obstacle to completion of the envisaged Linergy/UFBP merger, SAPI decided to continue to own and operate UFBP rather than sell it or wind it up.
27. These provisions of the MoU therefore appear, in many situations, to have transferred the risks and potential benefits of SAPI's involvement in UFBP from SAPI to Linergy. SAPI's involvement was without risk or upside for SAPI if the merger did not go ahead, unless possibly (depending on how the MoU is interpreted, see paragraph 24 above) SAPI decided to continue owning and

³ [REDACTED]

operating UFBP and there was another reason for abandonment of the merger than a regulatory obstacle. Conversely, Linergy took a risk in relation to any change in UFBP's value during SAPI's ownership, since it would have to pay SAPI [X] if the value had fallen, but would have benefited if UFBP's value had increased.

28. In addition, due to [X], if the envisaged merger did not go ahead, in all cases except possibly if SAPI decided to continue to own and operate UFBP and there was a reason for abandonment of the merger other than a regulatory obstacle, each MoU Party would have shared in the financial results of the other business (Linerly or UFBP, as the case may be) during the lifetime of the MoU in proportion to what its shareholding in the combined entity would have been if the envisaged merger had proceeded.
29. Therefore, we considered that these provisions of the MoU resulted in each MoU Party having an incentive to take into account the impact of its actions on the other MoU Party in at least many scenarios in which the merger envisaged in the MoU did not proceed (ie in any case if SAPI exited, and if the merger did not proceed due to a regulatory obstacle and SAPI decided to continue to own and operate UFBP), as well as if it did proceed (as set out above at paragraph 13). This may also apply to scenarios in which the merger did not proceed for other reasons (see paragraph 24 above), but we considered that even if it did not, the MoU Parties had this incentive in a sufficiently large number of scenarios that it could affect their actions after the MoU had been agreed.

Heads of Terms

30. The MoU Parties and Linergy's then shareholders agreed the HoT on 19 September 2014. These set out that the Parties agreed to carry the terms of the MoU into effect and recorded detailed arrangements for the merger envisaged in the MoU (recitals A and B).
31. The HoT provided that the provisions of the MoU continued in full force and effect until completion of the merger (clause 2), except that:
 - references in the MoU to 30 June 2014 were to be read as 30 September 2014; and
 - Clauses 3 and 4 of the MoU were deleted.
32. [X]

UFBP financial performance

Financial performance and position, before the acquisition by SAPI

Overall performance of UFBP

- Table 1 shows UFBP's financial results for the two financial years ended 31 December 2010 and the 17 months to 6 June 2012.

Table 1: UFBP profit and loss account

| | £'000 | | |
|-------------------------------|--------------------------------|--------------------------------|--|
| | <i>FY09</i> <i>(Actual)</i> | <i>FY10</i> <i>(Actual)</i> | <i>17 months ending</i> <i>6 June 2012 (Actual)</i> |
| Sales | 9,003 | 6,730 | 9,587 |
| Cost of sales | (6,174) | (5,886) | (9,644) |
| Gross profit | 2,829 | 844 | (57) |
| Overhead expenses | (1,075) | (1,161) | (1,682) |
| EBITDA | 1,754 | (317) | (1,626) |
| Depreciation | (1,389) | (1,463) | (2,115) |
| EBIT | 365 | (1,780) | (3,741) |
| Interest receivable/(payable) | 0 | 12 | 1 |
| Profit before tax | 365 | (1,769) | (3,740) |
| Taxation | (37) | (430) | (75) |
| Profit after tax | 328 | (1,338) | (3,665) |

Source: UFBP

- As shown in Table 1, UFBP's financial performance began to decline in 2010. The financial due diligence report prepared by PwC for Linergy as part of its proposed purchase of UFBP in 2011 stated that the main cause of [REDACTED].
- The replacement arrangement for this [REDACTED].
- The financial due diligence report also attributed the worsening in performance [REDACTED]. The lower volumes processed at UFBP's Category 1 plant meant that the Category 1 tallow it produced was no longer sufficient to fuel the plant's generators and so the company began purchasing fuel from other producers, including Linergy. [REDACTED]¹ [REDACTED]²
- [REDACTED]
- The worsening in performance also had a significant adverse effect on UFBP's balance sheet, summarised in Table 2 below.

¹ [REDACTED]

² We have used 12 months for comparative purposes.

Table 2: UFBP balance sheet

| | £'000 | | |
|--|------------------|------------------|-------------------------|
| | FY09 (Actual) | FY10 (Actual) | 6 June 2012 (Actual) |
| <i>Fixed assets</i> | | | |
| Tangible assets | 5,878 | 6,196 | 4,305 |
| <i>Current assets</i> | | | |
| Stocks | 573 | 623 | 570 |
| Amounts owed by group undertakings | 105 | 301 | - |
| Debtors – falling within one year | 1,245 | 1,185 | 892 |
| Cash at bank | 1,272 | 79 | 1 |
| Current Assets | 3,196 | 2,188 | 1,464 |
| Amounts owed to group undertakings | (388) | (967) | (1,710) |
| Other creditors | (715) | (869) | (1,405) |
| Current Liabilities | (1,103) | (1,837) | (3,115) |
| Liabilities due after more than 1 year | (780) | (396) | (167) |
| Net assets | 7,476 | 6,152 | 2,486 |
| <i>Capital and reserves</i> | | | |
| Called up share capital | 3,400 | 3,400 | 3,400 |
| Profit and loss account | 4,090 | 2,752 | (914) |
| Equity shareholder funds | 7,490 | 6,152 | 2,486 |

Source: UFBP.

7. As Table 2 shows, the net asset position of UFBP fell from £7.5 million as at 31 December 2009 to £2.5 million as at 6 June 2012.
8. The impact on cash was also significant as cash reserves fell from £1.2 million to £1,000 between 31 December 2009 and 6 June 2012. UFBP's parent company also had to start funding UFBP's operations through [✂] group loans and consequently the amounts owed to group undertakings grew from £388,000 to £1.7 million over the same period.
9. UFBP also had to [✂].

Category 1 and Category 3 performance

10. Table 3 outlines the respective performance of UFBP's Category 1 and Category 3 lines. The Category 1 plant was closed in October 2012.

Table 3: UFBP's Category 1 and Category 3 performance

| | £'000 | | | | | |
|---------------------|------------|------------|------------|------------|--------------------------|------------|
| | 2010 | | 2011 | | 9 months to October 2012 | |
| | Category 1 | Category 3 | Category 1 | Category 3 | Category 1 | Category 3 |
| Net contribution* | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| EBITDA | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Net profit / (loss) | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |

Source: UFBP.

*Net contribution is defined as revenue less all variable costs.

11. As Table 3 shows, although the Category 3 plant was also loss-making at an EBITDA and net profit level, it was performing less badly in absolute financial terms than the Category 1 plant.

Financial performance and position, following the acquisition by SAPI

12. UFBP's financial results for the seven months to 31 December 2012 and the two financial years ended 31 December 2014 are summarised in Table 4.

Table 4: UFBP profit and loss account

| | | £'000 | |
|-------------------------------|--|-----------------------|-----------------------|
| | <i>7 months ending 31 December 2012 (Actual)</i> | <i>FY13* (Actual)</i> | <i>YTD14 (Actual)</i> |
| Sales | 3,923 | [X] | [X] |
| Cost of Sales | (3,644) | [X] | [X] |
| Gross Profit | 279 | [X] | [X] |
| Overhead Expenses | (523) | [X] | [X] |
| EBITDA | (244) | [X] | [X] |
| Depreciation | (790) | [X] | [X] |
| EBIT | (1,034) | [X] | [X] |
| Interest receivable/(payable) | - | [X] | [X] |
| Profit before tax | (1,034) | [X] | [X] |
| Taxation | - | [X] | [X] |
| Profit after tax | (1,304) | [X] | [X] |

Source: UFBP.

* UFBP started submitting abbreviated accounts in FY13. Consequently the FY13 and FY14 financial information is not publicly available and has been excised.

13. Table 4 shows that UFBP's performance [X] in 2013, its first full year under SAPI's ownership. The main reasons for [X].
14. [X]
15. [X]
16. [X]
17. [X]
18. [X]
19. The impact on UFBP's balance sheet is summarised in Table 5.

Table 5: UFBP balance sheet

| | £'000 | | |
|--|------------------------------|------------------------------|------------------------------|
| | 31 December 2012 (Actual) | 31 December 2013 (Actual) | 31 December 2014 (Actual) |
| Tangible assets | 3,570 | 3,448 | 2,699 |
| Stocks | 610 | 3,074 | 746 |
| Amounts owed by group undertakings | 331 | [X] | [X] |
| Debtors – falling within one year | 281 | [X] | [X] |
| Cash at bank | 6 | 108 | 124 |
| Net Assets | 1,228 | 3,398 | 1,558 |
| Amounts owed to group undertakings | - | [X] | [X] |
| Other creditors | (829) | [X] | [X] |
| Current Liabilities | (829) | (881) | (1,058) |
| Liabilities due after more than 1 year | (2,515) | (3,622) | (2,372) |
| Net assets | 1,452 | 2,343 | 827 |
| <i>Capital and reserves</i> | | | |
| Called up share capital | 3,400 | 3,400 | 3,400 |
| Revaluation reserve | - | 819 | 813 |
| Profit & loss account | (1,948) | (1,876) | (3,386) |
| Equity shareholder funds | 1,452 | 2,343 | 827 |

Source: UFBP.

20. As Table 5 shows, the net asset position of UFBP improved in 2013, before deteriorating again in 2014, due to the changes in performance outlined in paragraphs 14 to 18.
21. However, since being purchased by SAPI, UFBP [X], and its cash balance grew from £6,000 at the end of 2012 to £124,000 at the end of 2014.
22. UFBP also revalued its land and buildings in 2013, which led to a revaluation reserve of £819,000 as at 31 December 2013. This did not have any impact on its profit and loss account.

Competitive effects – third party views

1. We sought views on the Merger from meat processors and competitors of the Parties. This appendix presents a summary of each of the third party's views on the ability of customers to use alternative Category 3 renderers to UFBP, or alternatives to rendering, and also any concerns about the effects of the Merger.

Customer views

2. We received a mixed picture from customers about whether they had effective alternative options to the Parties. We first set out a summary of points about outside options emerging from views expressed by customers, before detailing individual customers' views.
3. The larger meat processors with access to their own rendering facilities or a relationship with a renderer are able to render their own material, or to swap Category 1 and 3 materials with other renderers that also have rendering facilities. Also, the higher volumes of material they produce make them more valuable customer for renderers looking to fill spare capacity, and so they are more likely to be able to negotiate deals with a variety of alternative renders. Apart from the larger meat processors that are shareholders in Linergy, none of these are currently customers of UFBP's Category 3 facility, some having switched away to an alternative some years ago.
4. Meat processors without connected rendering facilities tended to be more concerned about the Merger, and about the strength of the outside options available to them. The alternatives available to independent (ie non-vertically integrated) meat processors and, in particular, smaller independent customers, are more limited for the reasons set out below:
 - (a) Renderers may not be interested in taking volumes from customers with smaller volumes, and those smaller volumes mean that transport costs are higher on a per tonne basis.
 - (b) There was a perception that the renderers in NI, or on the Island of Ireland, did not compete strongly because it was more profitable not to do so or because a renderer would not wish to take a rival's customers for fear of engendering an aggressive reaction from its rival. We have not however, tested whether this perception is consistent with actual levels of competition between renderers.

- (c) Even though some customers were using or may be able to use renderers in GB or the RoI, there was a concern among some independents that these did not offer a sustainable alternative, due to perceived challenges in relation to the logistics and costs of ferry transport, issues in relation to crossing borders, or because the prices currently being offered by Dundas, a renderer based in Scotland, were perceived not to be sustainable.
5. The perceptions of the strength of outside options appear to vary amongst the different independent meat processors. Some appeared to presume that their alternatives are limited, without having explored whether other renderers would offer better terms, while others appeared to consider that they had reasonable alternatives. We saw evidence of smaller meat processors using alternative renderers outside NI. However, the smaller the customer the less likely it is to use renderers outside of NI.
6. Below, we summarise the processors' views on their outside options.

Large vertically integrated meat processors

7. **Linden** had a 12% shareholding in Linery before the Merger and 8.4% following the Merger. Currently, Linden has all of its Category 1 material rendered by Linery. Its Category 3 material is rendered by UFBP or sold for alternatives to rendering.
8. Linden said that distance is not a significant factor in terms of choosing a renderer because 'all product is collected ex-factory', ie the renderer covers the transport costs. Linden said that it chooses its provider of rendering services based on the best price available (net of transport costs).¹ Linden saw renderers based in GB as acting as a constraint on Linery's and UFBP's pricing and noted that there was intense competition and overcapacity in rendering in GB. Linden told us it ensures that it is getting a good price from Linery by being well-informed about prices paid/charged by other renderers. For example, it has meat plants in Newcastle-upon-Tyne that have relationships with renderers in GB; and it has a shareholding in Slaney Foods which deals with renderers in the RoI.

¹ In relation to whether it would choose to send its Category 1 material to Linery or to another renderer, Linden notes that 'A group company will get priority in most if not all organisations. However, if there is a significantly superior (price) alternative, it is bound to be assessed. Given that Linery is one of the most modern and efficient plants around, as it is "new" and professionally operated, this is unlikely to happen'. On the other hand, Linden notes that Dunbia and Linden would be 'unlikely to move volume to another renderer and write off such a large investment'.

9. **Dunbia** is one of the largest meat processors in the UK and Ireland, with two sites in NI and two sites in the RoI. The shareholders of Dunbia (the Dobson brothers) collectively hold [REDACTED]% shareholding in Linergy following the Merger.²
10. Dunbia saw the market for rendering services as being wider than the island of Ireland and it did not view transport costs as significant. It pointed to the fact that it had had Category 3 volumes from its Kilbeggan plant in the RoI to be rendered by PDM in Widnes in England, and said that it would consider doing so again. Dunbia believed that it is able to play off renderers against each other, as it was in a strong position in negotiations with Linergy and UFBP due to its knowledge of prices in output markets and its knowledge of rendering prices offered by renderers in GB.
11. **Moy Park** is a vertically integrated meat processor and renderer of poultry material. It does not currently have materials processed by the Parties. It said it was not concerned by the Merger, and it told us that the Merger could give rise to greater competition as a combined entity with a Category 1 plant and Category 3 plant would provide a greater constraint on its current renderer.
12. Moy Park including O’Kane, a subsidiary of Moy Park, had previously been one of UFBP’s largest customers, but had switched away from UFBP in early 2012 following a price increase by UFBP. [REDACTED] It said that it could constrain [REDACTED] prices by credibly threatening to switch volumes to renderers in GB.³ It also indicated it could further develop its own rendering facilities or could sponsor entry by a third party.⁴
13. Moy Park said that the transport costs involved in supplying its excess materials ‘to somewhere in RoI such as Mayo could be potentially three times as much as to a NI based renderer’ such that ‘the additional transport costs meant that certain materials could go from being a revenue stream to a cost if Moy Park were to send them to the RoI’.
14. However, Moy Park currently supplies [REDACTED], indicating that transport costs are not prohibitive in relation to some parts of the RoI. Moy Park said that it could ‘divert its materials away from [REDACTED] to processors in GB for a short period of time in order to secure a better price in the longer term’, but [REDACTED].

² There is also a family connection with Elmgrove Foods offal export business, which sends edible material, including Category 3 material, to markets in the Far East and Africa.

³ If it had to look at alternatives to [REDACTED], it recognises that transport costs could be prohibitive given the relatively low value of the material it sends. However, it would be willing to absorb these additional costs for a period in order to constrain the prices of the incumbent provider - the large volumes produced by Moy Park meant that it was likely to be commercially more important to the renderer than the renderer was important to Moy Park.

⁴ Moy Park does its own rendering for the large majority of its poultry animal by-products, but sends about [REDACTED] tonnes per week to [REDACTED] ([REDACTED]).

15. **Foyle Food Group** (FFG) is a vertically integrated meat processor with six plants in GB, two in NI and one in the RoI. It owns 100% of Foyle Proteins, a Category 1 rendering business. FFG noted that transport and energy costs were very important drivers of price in rendering.⁵ [REDACTED]
16. There are other customers that currently have their material processed by the Parties and are vertically integrated. These customers are [REDACTED]. [REDACTED] are based in the RoI and [REDACTED] in NI.

Larger independent customers

17. **WD Meats** is one of the largest independent meat processors in NI. [REDACTED]
18. [REDACTED]⁶ [REDACTED]⁷ [REDACTED]
19. [REDACTED]
20. **Ballymena Meats** is a relatively large independent meat processor. [REDACTED]
21. [REDACTED]
22. **Hewitt Meats** is an independent customer based in Loughgall in NI [REDACTED].
23. [REDACTED]

Small independent customers

24. **Lakeview** is a small independent customer [REDACTED].
25. [REDACTED]
26. [REDACTED]
27. **Oakdale** is a small independent customer that currently has its material rendered by the Parties. [REDACTED]⁸ [REDACTED]
28. **C&J Meats** is a small independent customer [REDACTED].
29. There are other small independent customers which have used the Parties. [REDACTED].

⁵ FFG told us to ensure sufficient throughput to support the efficient running of its plant, FFG needs to either secure volumes from independent meat plants or secure swaps.

⁶ [REDACTED]

⁷ [REDACTED]

⁸ [REDACTED]

Competitors views

30. We asked other renderers (those in the RoI as well as Dundas and Saria) what would be the impact of the Merger in the market, including the effect on prices, and alternative constraints on the Parties. We also asked about the extent to which these renderers compete for customers in NI.
31. We received a mixed picture. In summary, views differed amongst renderers about the extent to which they competed for customers in NI. Four of the seven renderers to which we spoke considered transport costs to be prohibitive given the distances between their rendering plants and those of customers in NI.⁹ However, three other renderers considered that they compete effectively for volumes from NI and that transport costs between their rendering plants and customers in NI are not prohibitive, at least in relation to customers whose volumes are not too small.¹⁰ Some renderers indicated that smaller customers would not be attractive to them, due to the low volumes these customers supplied, the transport costs that would be incurred, or the quality of material that would be received.
32. **College Proteins** is an independent renderer with a Category 1 plant located at Meath in the RoI and also owns Farragh Proteins, which operates a Category 3 plant located at Cavan in the RoI.
33. College Proteins said that the Linergy/UFBP transaction had had no impact on renderers in the RoI. It appeared to consider that there were effective outside options for meat plants in NI. It said that it competes for the business of customers based in the top part of the island of Ireland.¹¹
34. College Proteins said that the costs of transporting material from NI to its plant was probably similar to the transport costs involved in servicing its customers in the South of RoI. However, College Proteins said that 'larger volumes were needed if taking material from NI, due to the distance from the College plant.'
35. **Dundas** has a Category 1 plant at Dumfries in Scotland and a Category 3 plant at Motherwell. Dundas said that it was active in NI and would continue to be so. [REDACTED] We have also been told of Dundas approaching other potential customers in NI and the RoI and offering them competitive prices.¹²

⁹ These four renderers are [REDACTED].

¹⁰ These three renderers are [REDACTED].

¹¹ This means anywhere north of a line between Dublin City and Galway City.

¹² According to UFBP, two independent customers secured lower prices from UFBP because they had threatened to switch to Dundas. [REDACTED] also indicated that it has faced competition from Dundas on the east coast of the RoI.

36. Dundas told us it intends to continue serving the customers it has (and told us that it was increasing the volumes it was taking from [REDACTED]). It said that, while prices in its output markets were currently low, it was not seeking additional volumes in NI, but would consider doing so if output prices improved. It indicated that it felt it was unlikely to get additional volumes from the large integrated meat processors (FFG, Linden, Dunbia and ABP), while other smaller customers were currently not attractive (less than 25 tonnes per week for Category 3) given the transport costs which would be incurred in collecting material from them.
37. **Western Proteins** has a Category 3 plant in Ballyhaunis in the RoI, but also competes for customers in NI. It is part of the same group as the meat processor Dawn Meats. [REDACTED] In relation to transport costs, Western Proteins said 'haulage fees were generally not determinative in the selection of a rendering plant', and said that 'it was not the case that the closest rendering plant was usually the best choice.' Western Proteins said that it had, in the past, shipped material from its own meat processing facilities in GB for processing in Ireland. However, Western Proteins said that 'for smaller meat producers – those only able to send half a lorry load to the rendering plant, for example – transport costs may be a more significant factor in choosing a renderer'.
38. **Dublin Products** is an independent renderer with a Category 1 plant and a Category 3 plant, both located in Dunlavin in the RoI. Dublin Products said it did not compete in NI because transport costs were too high. It said it had no contact with independent meat plant operators in NI as they were too small. It said it did not see Linergy and UFBP as competitors in the RoI and considered NI and the RoI to be 'different markets'.
39. **ABP** is a vertically integrated group and it is the largest producers of meat products on the island of Ireland. It has two meat plants in NI and a number of meat plants in the RoI and GB. It has a Category 1 rendering plant, which trades as Waterford Proteins, based in Waterford in the RoI and a Category 3 plant, which trades as Munster Proteins, based in Cahir in the RoI. ABP has recently opened a bone-gel rendering facility in Cahir.
40. ABP said it had not approached meat processors in Northern Ireland because of the transport costs involved and it considered that transport costs are important in determining the choice of renderer. However, ABP also said that there is excess capacity for rendering volumes on the island of Ireland and that there are rendering plants close to NI that could provide competition to the

Parties, although ABP said that they may be at a slight disadvantage to UFBP due to transport costs.¹³

41. **Slaney Proteins** is a vertically integrated group and it has a Category 3 plant based in Wexford in the RoI. Slaney Proteins said that the Merger will not have major implications for it because Slaney Proteins does not have any Category 3 input customers in NI. It said that its facility is too far away to compete for volumes in NI due to transport costs and degradation of material. It said that transport costs are seen as 'an important factor in where material could be sourced from. Equally, freshness was significant as material degraded over time, particularly when transported in hot weather'. Slaney Proteins said that transport costs and freshness issues prohibited serving NI from Slaney's site, as other renderers were much closer and larger operators might be better able to absorb transport costs. However, we note that Slaney Foods sends its Category 1 materials to Linergy in NI.
42. **Saria** (previously PDM) is a renderer in GB with Category 1 plants in Widnes and Exeter and a Category 3 plant in Nuneaton. Saria said it found the incremental cost of transport from the RoI and NI to be a significant barrier.¹⁴ Saria estimated that the cost of transporting Category 3 material from an 'abattoir in the border area between NI and the [RoI]' to its Nuneaton plant would be 'around £30 per tonne more than [Saria's] current UK average cost.' Saria also believed that the risk of material deteriorating such that it is downgraded from Category 3 to Category 1 material is a barrier to GB renderers sourcing Category 3 material from the island of Ireland. Therefore, it said it did not compete for volumes in NI.¹⁵

Views of processors offering an alternative to rendering

43. Other than renderers, some specialist processors accept certain specific types of material, eg for the processing of blood and fat. There are also traders which specialise in seeking new export markets for certain products for human consumption which are not traditionally eaten in the UK (see paragraphs 2.25 to 2.27). Therefore, we also asked about the extent to which these alternatives to rendering compete for customers in NI. We received a mixed picture from these providers on the extent to which they compete for customers in NI. Although, some meat plants send some of their material to these specialist processors, not all of their Category 3 material is suitable for these alternative

¹³ See [ABP Hearing Summary](#).

¹⁴ Saria told us that its current charge for disposal at Widnes would be £[redacted] per tonne (depending on product type - it could be higher for poor material). Therefore, the total cost for Category 1 from Northern Ireland would be at least £[redacted] per tonne.

¹⁵ However, the Parties said that Linergy and UFBP are [redacted].

uses. Elmgrove Foods, a trader specialising in developing novel export markets, told us that meat processors are doing all they can to send Category 3 materials to non-renderers. Therefore, an increase in rendering costs would not necessarily lead to further substitution to these specialist processors. It said that 'even when the market for the material for human consumption had been slow, meat plants had not increased the proportion of material sent for rendering'. However, the Parties strongly disputed this, saying that great efforts are being made to develop these alternative markets, the implication being that these efforts would be further enhanced the stronger the price incentive that applied.

44. **Duncrue Foods Processors** is an edible fat processor based in Belfast. Duncrue is part of Fane Valley who also hold a minority shareholding in Linergy. However, there is no trading relationship between Duncrue and Linergy as Duncrue only process edible fat. Duncrue said that it sources edible fat from meat plants in both NI and the RoI. It said that it provides 'the meat plants with the market price for the edible fat as they do have other avenues for the sale of this material'. Duncrue said that it pays the same price for the fat, regardless of the distance travelled.
45. **Elmgrove Foods** is based in Dungannon in NI and trades specialised products that are fit for human consumption, but which have traditionally been used in pet food or rendered. [REDACTED]
46. Elmgrove Foods said that its [REDACTED]. [REDACTED]
47. **Regal Processors** is a blood processor based in Armagh in NI. It processes a weekly average of [REDACTED] tonnes of Category 3 blood from meat plants in NI and a weekly average of [REDACTED] tonnes of Category 3 blood from meat plants in the RoI. Regal Processors said it does not process any other type of Category 3 material apart from Category 3 blood, and that it will not do so in the future. In addition, Regal Processors said that 'there is insufficient raw material to sustain further entry into the market on the island of Ireland'.
48. Regal Processors noted that the development of anaerobic digestion plants 'could have an impact on the availability of raw material for rendering', but 'legislative changes regarding applications would be necessary'.
49. There are other specialist processors that process material from meat plants in NI. For example, Greenacre Composting operates a composting and anaerobic digestion plant, and some of [REDACTED] Category 3 blood and grass has been processed by Greenacre Composting. Other uses include material for pet food manufacture, and materials such as bones used for soup/stock manufacture.

Glossary

| | |
|----------------------------|--|
| 2 Sisters Red Meat | 2 Sisters Red Meat Ltd. A meat processor based in England, and a subsidiary of 2 Sisters Food Group. |
| ABP | ABP Food Group. A large food processor with meat processing plants in NI , the Rol and GB . It also has rendering facilities, Munster Proteins and Waterford Proteins, in the Rol . |
| Anaerobic digestion | A process whereby fertilisers and energy are produced from organic wastes. |
| Animal by-products | Refers to what remains of an animal carcass after meat and offal for human consumption and other uses, have been removed. |
| Ballymena Meats | Ballymena Meats, a beef processor based in NI . |
| Biofuel | A fuel derived immediately from living matter. |
| BSE | Bovine Spongiform Encephalopathy. |
| Category 1 | Refers to high-risk animal by-product material, including carcasses and all body parts of animals suspected of being infected with TSE , and specified risk material (body parts that pose a particular disease risk, eg cows' spinal cords). |
| Category 2 | Refers to animal by-product material that is classed as high-risk, and includes: fallen stock, animals rejected from abattoirs due to having infectious diseases; carcasses of animals killed for disease control purposes; and manure and digestive tract content. In the absence of dedicated Category 2 treatment facilities, such material has to be treated as Category 1 . |
| Category 3 | Refers to animal by-product materials classed as low-risk. They include: carcasses or body parts passed fit for humans to eat, at a slaughter house; products or foods of animal origin originally meant for human consumption but withdrawn for commercial reasons, not because it is unfit to eat; animal hides, skins, hooves, feathers, wool, horns, and hair that had no signs of infectious disease at death. Such products can be used in the production of soap, paint, bottle tops, sprays and make up, animal feed, fertiliser etc. |
| CC | Competition Commission. A predecessor of the CMA . |
| C&J Meats | C&J Meats Ltd. A meat processor based in NI . |

| | |
|------------------------------|--|
| College Proteins | College Proteins Group. A renderer based in the Rol , it renders Category 1 and Category 3 material. It also owns Farragh Proteins, a Category 3 plant, in the Rol . |
| CMA | Competition and Markets Authority. |
| Crossgar Poultry | Crossgar Poultry Ltd, a subsidiary of Crossgar Foodservice, is a poultry processor in NI . |
| Crosskey Meats | Crosskey Meats Ltd. A meat processor based in NI . |
| Customer | For the purposes of this report, this refers to parties that send material for rendering. This includes farmers, abattoirs, de-boning plants, slaughter houses and meat processing plants. |
| DARD | Northern Ireland Department of Agriculture and Rural Development. |
| Dawn Meats | Dawn Meats Group. A meat processor based in the Rol with plants around the UK. It has a rendering plant, Western Proteins , also based in the Rol . |
| Doherty & Gray | Doherty & Gray Ltd. A meat processor based in NI . |
| Domestic Sheepskins | Domestic Sheepskins UK Ltd. A supplier of hides and skins, based in NI . |
| Dry rendering process | A rendering process where the raw material is heated in a steam-jacketed vessel until most of the water has evaporated. The evaporated water is condensed to recover heat and the remaining solid material is pressed to separate the tallow from the MBM . |
| Dublin By-Products | Dublin By-Products Ltd. A Category 3 rendering plant based in the Rol . |
| Dunbia | A meat processor based in NI . Dunbia's owners are also shareholders of Linergy . |
| Duncrue Foods | Duncrue Food Processors Ltd. A beef dripping manufacturer based in NI . |
| Dundas | Dundas Chemicals (Mosspark) Ltd. A renderer based in Scotland that renders Category 1 and Category 3 material. |
| EBITDA | Earnings before interest, tax, depreciation and amortisation. |
| Edenmore Farm Meats | Edenmore Farm Meats Ltd. A meat processor based in the Rol . |

| | |
|-----------------------------|--|
| Edible Fat | Oily or greasy matter making up the bulk of fatty tissue in animals. |
| Elmgrove Foods | Elmgrove Foods Ltd. Produces and supplies fifth-quarter products globally, based in NI . |
| Eurostock Foods | Eurostock Food Group Ltd. A meat processor with plants in GB and the RoI . |
| F C Robinson | Fred C Robinson. A pork processor based in NI . |
| Fallen stock | Animals that have died on farms and therefore need to be disposed of by farmers. |
| Fane Valley Co-op | Fane Valley Co-operative Society Ltd. A farmer-owned agri-food industry co-operative, based in NI . Its subsidiaries include Duncrue Food Processors , Irish Country Meats , Kettle Irish Foods , Linden Foods , Linergy and Slaney Foods. |
| Finnebrogue Venison | A meat processor based in NI . |
| FFG | Foyle Food Group Ltd. A group of companies that specialise in slaughtering, deboning and rendering. It has a rendering plant, Foyle , that renders Category 1 and Category 3 material. |
| Foyle | Foyle Proteins. A subsidiary of FFG , it is a rendering plant that renders both Category 1 and Category 3 materials. |
| Foreclosure | Where actual or potential rivals' access to supplies or markets is hampered or eliminated, thereby reducing the company's ability and/or incentive to compete. |
| FY | Financial year. |
| Galgorm Meats | Galgorm Meats Ltd. A meat processor based in NI . |
| Gasification process | A process that heats waste to produce a synthetic gas fuel used to produce steam, which is used to create energy. |
| Gate fee | The charge made by the renderer to the customer (eg a meat processor) for rendering its material. In some cases gate fees are negative, for example it is common for renderers to pay for Category 3 materials. |
| GB | Great Britain. |
| Gel bone process | A process where fat, bone and protein fractions are rapidly heated and the bone and protein are separated from the fat |

by decanter centrifuging. The bone and protein is dried in a direct air dryer; the gel bone is screened out of the meal.

| | |
|----------------------------|---|
| Glenfarm | Glenfarm Holdings Ltd. A cooperative of farmers based in NI . Previous parent company of UFBP (until June 2012). |
| H K Dickey | A poultry processor based in NI . |
| Haarslev | Haarslev Ltd. A supplier and installer of machinery to the food processing and rendering industries, based in mainland Europe. |
| Hewitt Meats | Hewitt Meats Processing Inc. A meat processor based in NI . |
| HoT | Heads of terms. An agreement signed by SAPI and Linergy , on 19 September 2014 that set out the agreed principles of the proposed merger. |
| Hunt kennel | A type of facility which is licensed to dispose of fallen stock . |
| Independents | For the purposes of this report refers to meat processors without any vertical linkages or similar associations with any renderers . |
| Input side | The sourcing of animal by-products from slaughter houses, deboning plant, retail food waste and dead farm animals. |
| Irish Country Meats | A lamb processor based in the RoI , part of the Fane Valley Co-op . |
| K&G McAtamney | K&G McAtamney Butchery & Deli. A butcher's shop based in NI . |
| Karro | Karro Food Group. A pork processor based in GB with meat processing plants across the UK. |
| Kettyle | Kettyle Irish Meats. A meat processor based in NI , part of the Fane Valley Co-op . |
| Kepak | Kepak Meat Division. A meat processor based in NI ; a subsidiary of the Kepak Group. |
| Kildare Chilling co | Kildare Chilling Company. A meat processor based in the RoI . |
| Lakeview | Lakeview Farm Meats Ltd. A red meat slaughtering and deboning facility based in NI . |
| LCA | LCA Lex. A law firm based in Italy, SAPI 's lawyers during its purchase of UFBP . |

| | |
|--------------------------|---|
| Liffey | Liffey Meats Ireland. A meat processor based in the RoI . |
| Linden Foods | Linden Food Group. A meat processor based in NI . One of the shareholders of Linergy . |
| Leo | Leo Group Ltd. A renderer based in GB that renders Category 1 and Category 3 material. |
| Linergy | Linergy Limited. |
| MBM | Meat and bone meal, an output from the normal rendering process . It is the protein product derived after the fat and moisture have been extracted from the raw material. It is typically 48 to 52% protein, 33 to 35% ash, 8 to 12% fat and 4 to 7% moisture. Category 1 MBM is incinerated. Category 3 MBM can be used for various purposes, such as the formulation of animal feed (subject to restrictions on what animal species can be used for different end uses). |
| MoU | Memorandum of Understanding. An agreement signed by Linergy and SAPI in May 2012, which included consideration of a potential merger between Linergy and UFBP and the acquisition by SAPI of a 30% shareholding in the combined business. |
| MoU Parties | SAPI and Linergy . |
| Moy Park | Moy Park Limited. A poultry processor based in NI . |
| NFSCo | National Fallen Stock Company. |
| NI | Northern Ireland. |
| NIEA | Northern Ireland Environment Agency. |
| O'Neill of Clonoe | O'Neill of Clonoe Ltd. Building and Civil Engineering Contractors based in NI . |
| O'Kane | A poultry processor based in NI , a subsidiary of Moy Park Ltd . |
| Oakdale | Oakdale Meats (NI) Ltd. A red meat slaughtering and deboning business based in NI . |
| OFT | Office of Fair Trading. A predecessor of the CMA . |
| Oleo-chemical | A chemical compound derived industrially from animal or vegetable fats or oils. |

| | |
|--------------------------|---|
| Output side | The sale of processed materials such as MBM and tallow . |
| PAP | Processed animal proteins derived entirely from Category 3 material that have been rendered so as to make them suitable for animal feeds. |
| Processors | Refers to meat processors (ie companies that prepare meat for human consumption), including boning halls etc. |
| PwC | PricewaterhouseCoopers. A multinational professional services firm. It managed the sales process of Glenfarm Holdings in 2012. |
| Renderer | A company that undertakes rendering (ie processing animal by-products through a rendering process). |
| Rendering process | The process of using high temperature and pressure to convert animal by-products into valuable products. It is a combination of crushing, mixing, cooking, pressurising, fat separation, water evaporation, microbial and enzyme inactivation. |
| Rockvale Poultry | A poultry processor in NI . |
| Rol | Republic of Ireland. |
| SAPI | SAPI S.P.A., a company based in Modena, Italy, engaged in the business of processing animal by-products and involved in animal rendering plants worldwide. It is the parent company of UFBP (since June 2012). |
| SARIA | SARIA Ltd. A Category 3 renderer based in GB ; subsidiary of the Prosper-De-Mulder Group. |
| Scotbeef | Scotbeef Ltd. A meat processor based in Scotland, a subsidiary of J. W. Galloway Ltd. |
| Simply Soups | Simply Soups Limited. A manufacturer of liquid stocks. |
| Slaney Proteins | Slaney Proteins Limited. A Category 3 renderer based in the Rol . A subsidiary of Slaney Foods International. |
| SLC | Substantial lessening of competition. |
| SPA | Share Purchase Agreement. |
| SSA | Share Sales Agreement. |

| | |
|------------------------------|--|
| SRM | Specified risk material. The term for designated tissues and body parts of animals that cannot enter the food chain because TSE prions may be concentrated there. |
| Tallow | The fat extracted from animal tissue in the normal rendering process . It can be used as an energy source for animal feed or used in the manufacture of soaps and oleo-chemicals . |
| The Act | Enterprise Act 2002. |
| Topping Meats | Topping Meats Ltd. A meat processor based in NI . |
| TSE | Transmissible Spongiform Encephalopathy. |
| UFBP | Ulster Farm By-Products Limited. |
| UKRA | The UK Renderers' Association. |
| W D Meats | W D Meats Ltd. A meat processor based in NI . |
| Western Brand | Western Brand Poultry Products NI Limited. A poultry processor based in NI . |
| Western Proteins | A Category 3 renderer based in the RoI , a subsidiary of Dawn Meats . |
| Wet rendering process | A rendering process which involves direct steam injection into the vessel. Fat floats to the top and is drawn off, removed and polished to produce tallow . The water phase is drained off and the solid material is removed and dried to produce MBM . |
| Yield | An expression used to describe the amount of product (nominal or actual) that can be derived from a given input of raw material. |