

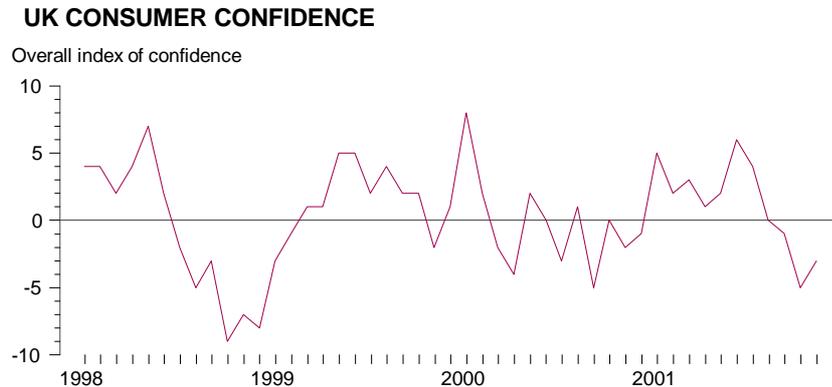
**In this Issue:**

The European Commission fines the Vitamin Cartel  
Third quarter national output data shows deep divisions in growth  
Manufacturing capital investment now falling sharply

**CONSUMERS WEATHER THE STORM**

The latest GfK/European Union index of **consumer confidence** rebounded 2 points to -3 in November. People’s expectations about their own financial position and the general economic backdrop has improved in the last month– reflected in a sharp increase in the index showing the willingness of consumers to make major purchases such as expensive household durables, a new car or home improvements. The current state of confidence has now edged back to the levels last seen during the fuel crisis of Autumn 2000. Consumers expect **inflation** to remain in control. Indeed generous discounts in many high street stores will lead to a further increase in people’s **real product wage**. And the small rise in claimant count and ILO unemployment registered in October does not seem to have impacted too badly on economic sentiment.

*(Continued on page 2)*



**Special Report: European Competition Bites Back at Vitamin Cartels**

A judgement by the European Competition Commission this week against manufacturers of vitamin products shows how regulators can respond to anti-competitive behaviour. In this Case Study article, we outline details of the EC judgement.

**Summary of the European Competition Commission Findings and Action**

The **European Commission** has fined eight companies a total of €855 million for participating in eight distinct secret market-sharing and price-fixing cartels affecting vitamin products.

The companies are thought to have cost shoppers millions of pounds, by carving up the market and **rigging prices** for vitamins included in everything from cereals, biscuits and drinks to animal feed, pharmaceuticals and cosmetics.

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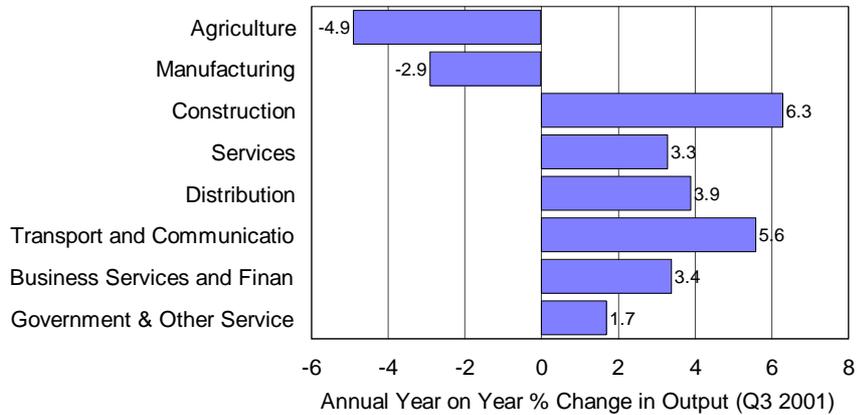
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## GROSS DOMESTIC PRODUCT BY OUTPUT

Data released on third quarter national output and expenditure show that **real GDP** grew by 0.5% - giving an annualised rate of growth of 2.1%.

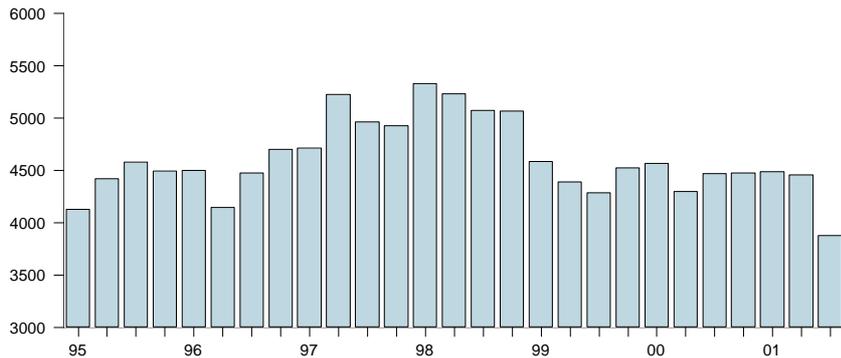
The **service sector** is growing by 3.3% but transport and communication continues to expand at a faster rate. **Distribution** is enjoying growth close to 4% partly on the back of the continued strength of consumer demand. And **Construction** is riding high at the moment. The surge in production in construction was sufficient to add 0.33% to national output in the third quarter of 2001.

The main economic weakness lies with **manufacturing** and **agriculture** - both of which are now firmly in recession. The -2.9% annualised fall in production in industrial output has sliced 0.77% off UK GDP growth in the third quarter, 0.63% of which has come from the troubled manufacturing sector. The scale of this downturn was underlined this week with the release

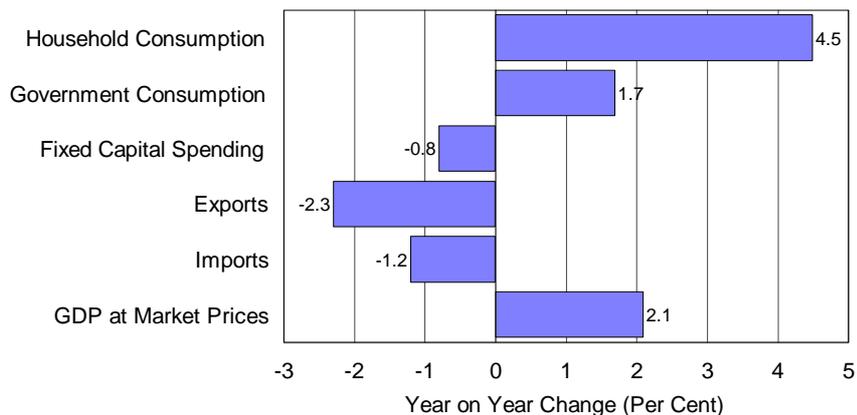


## INVESTMENT SPENDING BY MANUFACTURING INDUSTRY

£ million at constant 1995 prices



## CONTRIBUTIONS TO AGGREGATE DEMAND



of data on manufacturing investment. The slump in demand and output has inevitably had a negative effect on **planned capital investment**. The seasonally adjusted level of real capital spending in manufacturing fell sharply from £4,458m in Q2 to just £3,877 in the third quarter. The weakness of capital spending and exports is shown in the third chart above - both of which are now contributing negatively to the growth of **aggregate demand**. Consumers hold the key!

**Cartel Cracks**

"This is the most damaging series of cartels the Commission has ever investigated due to the sheer range of vitamins covered which are found in a multitude of products from cereals, biscuits and drinks to animal feed, pharmaceuticals and cosmetics"

**Mario Monti;**

**EU Competition Commissioner]**

Each **cartel** had a specific number of participants and duration, although all operated between September 1989 and February 1999. Because Swiss-based company Hoffman-La Roche was an instigator and participated in all the cartels it was given the highest cumulative fine of €462 million.

The investigation began in May 1999. The Commission found that 13 European and non-European companies participated in cartels aimed at eliminating competition in the vitamin A, E, B1, B2, B5, B6, C, D3, Biotin (H), Folic Acid (M), Beta Carotene and carotinoids markets.

A striking feature of the investigation was the central role played by Hoffmann-La Roche and BASF, the two main vitamin producers, in virtually each and every cartel, whilst other players were involved in only a limited number of vitamin products.

Fines were imposed on the following eight companies as follows:

?????F. Hoffmann-La Roche AG (Switzerland): €462 million

?????BASF AG (Germany): €296 million

?????Aventis SA (France): €5 million

?????Solvay Pharmaceuticals BV (Netherlands): €9 million

?????Merck KgaA (Germany): €9 million

?????Daiichi Pharmaceutical Co Ltd (Japan): €23 million

?????Eisai Co Ltd (Japan): €13 million

?????Takeda Chemical Industries Ltd (Japan): €37 million

Under EU law, companies found guilty of antitrust practices can be fined up to 10% of their total annual sales. The companies have three months to pay their fines or have the option to appeal to the EU's high court.

Consumer groups in Britain welcomed the fines, which they hoped would hasten the implementation of laws proposed in the Enterprise Bill to curb anti-competitive behaviour. The Consumers' Association described the secret vitamin cartel as "corporate mugging".

Although the Commission did not say which items were worst affected by the artificial inflation of prices, it believed there was a substantial cost to ordinary shoppers.

Brussels has been unable to calculate the increased cost passed on to consumers, but it does give one example relating to vitamin C. During the last year in which the cartel was in place the total value of the market was €250 million, a figure that fell to €120 million three years later.

**Monti on Collusion**

"The companies' collusive behaviour enabled them to charge higher prices than if the full forces of competition had been at play, damaging consumers and allowing the companies to pocket illicit profits.

It is particularly unacceptable that this illegal behaviour concerned substances which are vital elements for nutrition and essential for normal growth and maintenance of life".

**[Mario Monti]**

## How Did the Cartels Operate?

The participants in each of the cartels:

- Fixed prices for the different vitamin products

- Allocated sales quotas

- Agreed on and implemented price increases and issued price announcements in accordance with their agreements

- Set up a machinery to monitor and enforce their agreements and participated in regular meetings to implement their plans.

The *modus operandi* of the different cartels was broadly the same, involving the:

- Establishment of formal structure and hierarchy of different levels of management, often with overlapping membership at the most senior levels to ensure the functioning of the cartels;

- Exchange of sales values, volumes of sales and pricing information on a quarterly or monthly basis at regular meetings;

- Preparation, agreement and implementation and monitoring of an annual "budget" followed by the adjustment of actual sales achieved to comply with the quotas allocated;

## Who Were the Main Players in the Cartels?

According to the Commission, the prime mover and main beneficiary of the vitamin cartels was Hoffmann-La Roche, the largest vitamin producer in the world, with some 50% of the overall market. The cartel arrangements covered its full range of vitamin products. The Commission concluded that "the involvement of some of its most senior executives tends to confirm that the arrangements were part of a strategic plan conceived at the highest levels to control the world market in vitamins by illegal means".

BASF, the next largest vitamin producer worldwide, assumed a paramount role in following Hoffmann-La Roche's lead. The other vitamin producers were all active members of the cartel arrangements in the respective vitamin product markets in which they operated.

## Why is the Vitamins Market So Important?

Vitamins are vital elements for human and animal nutrition. They are essential for normal growth, development and maintenance of life.

Vitamins are added to both compound animal feeds and human food products. Vitamins for pharmaceutical purposes are marketed to the public as diet supplements in tablet or capsule form. In the cosmetics industry, vitamins are added to skin- and health-care products.

The Commission estimated that the European Economic Area (EEA) market for the products covered in the decision was worth around €800 million 1998. This includes vitamin E, which in 1998 was worth approximately €250 million in the EEA and vitamin A, which represented some €150 million.

### The Consumer Pays

"Any time a cartel jacks up the costs of a legitimate business, they jack up the prices that the consumer ultimately pays."

[Philip Evans

Consumers Association]