Carlsberg and the Cartels

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Introduction

Nowadays, phrases like 'restrictions of competition' and 'cartel formation' sound furtive, perhaps even illegal. However, in Denmark, free and uncontrolled competition was in the first half of the 20th century seen by some as unhealthy and dangerous, particularly in major divisions of industry and even more so for large parts of the public sector. The interests of the brewery industry were, of course, best served by arranged market conditions as not only did this guarantee stable prices, but it also prohibited alternative sales and distribution methods.

The early years of the cartel

In 1899 Denmark's leading brewers founded the Bryggeriforeningen (Brewers' Association). This cartel introduced a nationwide price agreement although not without a great deal of negotiation. The most intense conflict at this early stage of the industrial development of the Danish breweries was between the big metropolitan breweries, De forenede Bryggerier (The United Breweries) and Carlsberg on one side and on the other the smaller and medium-sized provincial breweries. The price agreement ensured that the metropolitan breweries gained access to the markets in the provinces, but on the understanding that their beer was priced at one øre (øre - Danish coin worth 1/100 of a krone) more than the local brew.

The interests of the authorities were also served by the price agreements as they ensured steady profit conditions - if the breweries could supply a stable tax return to the state, then the Danish authorities were prepared to let the industry handle the internal competition conditions by themselves. And to everybody's satisfaction this arrangement worked: from 1917 to 1929 the beer tax was constant at approximately 8 øre per bottle while at the same time sales went up from roughly 800,000 hectolitres in 1918 to 1,300,000 hectolitres in 1929.[1]

The only fly in the ointment was the large temperance movement which by 1916 had 200,000 members. The Brewers' Association took this threat very seriously and they even engaged an opinion former in an attempt to affect the public's view on the alcohol question.[2] To the great relief for the breweries membership of the temperance society decreased to approximately 50,000 by 1942. While the Danish temperance declined, the comparable associations in Sweden and especially Norway had a major impact - in Norway an actual prohibition was carried through.

The war years

During the German occupation during World War II the common interest of the authorities and the breweries for regulated market conditions intensified. Eventually more than half of the selling price went to the state - the average cost of beer was 42 øre in 1942 of which 23 øre was tax. The revenue to the state remained stable throughout the occupation, the result of an annual volume of 1,500,000 hectolitres of beer being sold despite the delivery and distribution difficulties caused by the war. These difficulties were ameliorated by a joint effort between the breweries and the German occupying power. On one hand the Nazis ensured the necessary malt and corn supply from Germany and on the other the breweries supplied beer for the Wehrmacht's many canteens and other needs. A total of nearly 74 million bottles of beer or almost 250.000 hectoliters were delivered to the occupying power - of which Carlsberg delivered 'a substantial part of' - as the manager of Carlsberg, Frederik Sander, stated at a meeting of the Brewers' Association in 1942.[3] The government was paid by a clearing account and immediately after the liberation it brought a collaboration action against the breweries with a demand for a repayment of part of the profit (approximately 2 øre per sold bottle of beer). The case was settled five years later, in September 1950, with the breweries evading paying collaboration compensation to the Danish state.[4]

Post 1945

However, after the liberation the breweries faced a far more serious challenge from the state. On March 31st 1949 the Folketinget (Danish Parliament) appointed a Trustkommissionen (Trust Commission) which was assigned to inspect potential competition limitations and compliance to the 1937 legislation on price agreements. The very next year an investigation of the brewery industry was set in motion. To some extent the brewery industry successfully influenced the Trust Commission's work and when the results of its investigation were announced in 1960 the chairman of the Brewery Association, manager of Carlsberg A.W. Nielsen, could declare with satisfaction that it had happened 'without any trouble'.[5] In fact, during the 1960s and '70s the greatest threat to competition limitation came from within the beer trade itself. On January 30th 1952 Harboe Bryggeri (Harboe Brewery) terminated all price agreements, collegiate regulations and advertising settlements and Faxe Bryggeri (Faxe Brewery) put pressure on the other members by selling its gold-beer at lager prices. Equally, it was Faxe which in 1976 went against their colleagues and launced the Faxe Fad beer in specific small podgy-type of bottle. To the chagrin of Carlsberg, while the small breweries were successful it experienced a decrease in sales of 65.5 million bottles, equivalent to almost 230,000 hectolitres.[6]

At Carlsberg's large brewery in Valby, Copenhagen, they took the threats from the smaller breweries with a certain degree of calmness. Industry wide beer sales were going very well; between 1957 and 1967 they increased approximately 52% and, after a period of domination by Tuborg in the 1950s, Carlsberg Hof re-established itself as the largest beer brand from the middle of the 1960s. Meanwhile, the authorities were aware of the competition problems in the industry and in 1969 the Monopoltilsynet (Monopolies Commission) rejected an application from the Brewery Association applying for an increase in the beer prices in excise Class I.[7] The reason for the rejection was that the Monopolies Commission thought that the cost accountings were unclear. Of particular concern was the Carlsberg/Tuborg agreement which began in 1903 concerning profit-sharing caused problems as Tuborg had substantially higher production costs than Carlsberg. According to the Commission the increase in prices should be made on the basis of the cost of the most efficient company and not from an average cost calculation which they believed only blurred the picture. In other words, the old 1903 profit-sharing agreement had lapsed and a structural change in the brewery industry was greatly needed.

These changes followed the year after with the merger - sometimes called 'the beer-wedding' - of Carlsberg Breweries and The United Breweries (Tuborg) in May 1970. After this major national amalgamation Carlsberg prepared both to expand abroad and dominate the profitable domestic marked. The Carlsberg Group's beer sales in the domestic market were remarkably constant the following years, about five million hectolitres in the period from 1972 to 1996, whereas the sales abroad increased from 2.5 million hectolitres in 1972 to 27.2 million hectolitres in 1996 (including total beer production of its own and associated companies).

The demise of the cartels

The price agreements in Denmark continued throughout the 1970s and '80s, but then two significant threats emerged. The first arose from the Monopolies Commission which in 1984 stated that the contracting agreements of the industry contained considerable competition limitations of a kind that contradicted the monopoly laws. The second threat transpired with fundamental changes in Danish retailing during the 1970s and '80s. On October 7th 1970 the first discount shop opened in Denmark - Bilka in

Tilst near Århus - and in 1981 and 1982 alone the number of discount shops increased by 68% and 65% respectively. By the beginning of 1983 there were 299 stores scattered all over the country and as a consequence of this development the supermarket chains and discount outlets gained a large proportion of Danish the beer market.

Another development was the introduction of so-called trade mark (retail brand) or discount beers which, unlike the established beer brands, were not included in the price agreement. Nevertheless, the chairman of the Brewery Association and Carlsberg, director Poul Svanholm, dismissed the idea. Instead he pointed out that it was risky for the small breweries to be dependent on one customer - just like he emphasized that until now the price agreements had counteracted further concentration in the Danish brewery industry, for which reason the small breweries should respect the agreements.[8]

In March 1983 the Albani Brewery in Odense invited all the brewery directors to a last effort to come to a settlement about the price agreements. The purpose of the Albani meeting was to establish a nationwide accord concerning cost accounting rules for trade brands and the prohibition of discount beers. However, the endeavour did not succeed; the beer cartel agreements in Denmark were soon to become history. In 1987 discount beer sales counted for 10% of the market share. At the same time five of the smaller breweries - Harbor, Odin, Lolland-Falster Bryghus, Vestfyn and Maribo Bryghus - left the Brewery Association, so freeing themselves from the collegial agreements, and began concentrating on the discount beer market. The foundations of the collegial price agreement were thereby shaken and at the same time the Monopolies Commission tightened the net around the contracting agreement. In May 1987 the Commission published an extensive statement about competition in the brewing industry.[9] In a press release the Commission made it clear that the widespread agreement of the brewery industry shackled prices and the structure of distribution. Rather, it should be regarded in connection with other competition limiting conditions in the beer market - namely the high degree of concentration and the incorporated branded goods. After eight months of negotiation on February 15th 1988 Poul Svanholm could announce to the public that the contracting agreement between the breweries had been finally abolished.

At the ordinary general meeting in the Brewery Association the same year, Svanholm made it clear that the pressure on the price agreement had come from two flanks: 'The Monopoly Supervision who forced the changes but not to forget the importance of more than 10 years with trade mark beer and discount beer which made competition untenable'.[10] Consequently Svanholm ended a remarkably long chapter in Danish business history: more than 90 years of price agreements and restriction of competition in the Danish beer market.

Conclusion

What is left is the question, why did the Danish authorities let the price system prevail from the first criticism by the Trust Commission in 1949 to the final decision by the Monopolies Commission, nearly 40 years later, in 1987? It is also interesting to speculate how the Danish brewing industry would have developed without the price agreement. Comparisons can be made with the development in other industries; the slow and indulgent treatment of the breweries was by no means exceptional. Market and price control were in fact widespread within, among others, the Danish asphalt, concrete, mortar, brickfield and electricity-installation industries. What can be said is that the Danish beer cartel, despite the considerable influence of Carlsberg, was eventually undermined by pressures from both outside and within the brewing industry.

References

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