

***Case No COMP/M.4507 -  
GIVAUDAN / QUEST  
INTERNATIONAL***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION  
Date: 21/02/2007

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21/02/2007

SG-Greffe (2007) D/200829

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

**Subject: Case No COMP/M.4507 – Givaudan/Quest International  
Notification of 17 January 2007 pursuant to Article 4 of Council  
Regulation No 139/2004<sup>1</sup>**

1. On 17 January 2007, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (the "EC Merger Regulation"), by which the Swiss company Givaudan S.A. ("Givaudan" or "the Notifying Party") intends to acquire sole control over the flavours, fragrances and aroma chemicals business of Imperial Chemical Industries PLC ("ICI"), registered in the Netherlands under the name Quest International ("Quest"), by means of purchase of assets and shares.

**I. THE PARTIES**

2. Givaudan is a manufacturer and supplier of fragrance and flavour products to consumer goods industries. It also produces aroma chemicals which can be used as ingredients for the production of flavour or fragrance compounds. Givaudan is active globally with sales offices, production sites and laboratories in many countries around the world.

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<sup>1</sup> OJ L 24, 29.1.2004, p. 1.

3. Quest is also active on a global scale in the manufacture and sale of fragrances, flavours and aroma chemicals. Its flavour division is primarily active in the manufacture and sale of flavours, as well as value-added seasonings for the food industry and some juice based compounds for the beverage industry. Quest's fragrance division is primarily active in the manufacture and sale of fragrances, but also sells a limited amount of cosmetic ingredients primarily intended for beautifying hair, complexion or skin, and fragrance aroma chemicals.

## **II. THE TRANSACTION**

4. The concentration consists of the intended acquisition of sole control by Givaudan over Quest by way of purchase of assets and shares. The parties have entered into an agreement, pursuant to which Quest's parent company ICI will sell or procure that its subsidiaries currently performing Quest's business will sell, shares and/or assets in a number of countries worldwide to Givaudan or its nominated purchaser subsidiary companies. ICI will also sell some business assets such that all properties, employees and assets which relate to the Quest business will be transferred to Givaudan.
5. As a result of the transaction, Givaudan will acquire sole control over Quest and the transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the EC Merger Regulation

## **III. COMMUNITY DIMENSION**

6. The undertakings concerned have a combined aggregate world-wide turnover in excess of EUR 2,500 million (Givaudan, EUR 1,800 million; Quest EUR 858 million). They have a combined aggregate turnover exceeding EUR 100 million in France, Germany and U.K. Moreover, they each have an aggregate turnover of more than EUR 25 million in these Member States. They also have each an aggregate Community-wide turnover exceeding EUR 100 million and do not achieve more than two-thirds of their respective aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension within the meaning of Article 1(3) of the EC Merger Regulation.

## **IV. COMPETITIVE ASSESSMENT**

### **A. Relevant product markets**

7. The transaction involves two companies active in the manufacturing and supply of flavours, fragrances and, to a lesser extent, aroma chemicals with the latter being used as raw materials (in addition to or instead of natural flavours/fragrances) in the manufacturing of flavour and fragrance compositions.

#### **1. Flavours**

8. Flavours are compounds of naturally occurring and/or synthetically manufactured ingredients to impart flavour to materials designated for human consumption or animal feeding. The manufacturing process usually involves the blending of raw materials with either the addition of a liquid ('liquid blending') or without ('powder blending'). Some liquid flavours are converted to powdered form post manufacture to protect them against external influences (so-called "spray drying" or "encapsulation" process).

9. Flavours are used in a wide range of products including processed foods, drinks, chewing gums, pharmaceutical products, tobacco and fodder. The function of the flavour is to simulate the flavour, to maintain its character and to enhance a flavour impression and its acceptability.
10. In an earlier decision, *EQT/H&R/Dragoco*<sup>2</sup>, the Commission found that flavours are almost always customised, i.e. designed for a specific end product, with suppliers being invited to participate in the end product's development on the basis of tenders. As a result, a particular flavour composition may not be interchangeable with another flavour composition from the demand side. However, due to the very high degree of supply-side substitutability, it was held that flavours, as a whole, constitute a relevant product market.
11. The notifying party submits that the characteristics of the industry have not changed since the Commission issued the *EQT/H&R/Dragoco* decision and that consequently flavours form one relevant product market. The notifying party recalls that most, if not all flavour companies have the ability to design and manufacture a wide range of flavours for a multiplicity of end uses.
12. The market definition proposed by the notifying party was to a large extent confirmed by the results of the market investigation. A number of customers suggested that the market for flavours could be defined on the basis of narrower segments according to the application (e.g. flavours for savoury, sweets, dairy, beverages and pharmaceuticals) or between the "natural" or "non-natural" character of the flavour. However, there appears to be a high degree of supply-side substitutability. The vast majority of customers (more than 90%) express the view that the principal flavour producers (such as Symrise, IFF or Firmenich) are able to produce flavours for all the main applications. All suppliers responding in the market investigation favour a single flavours market.
13. However, the exact product market definition can ultimately be left open in this case, since even if narrower markets (e.g. on the basis of different applications) were defined, no competition concerns would arise, as will be further explained in the competitive assessment.

## **2. Fragrances**

14. Fragrances are compounds of natural and synthetic origin, giving scent to or masking bad odour of a wide range of products. They are manufactured by blending natural and/or synthetic ingredients and diluting them with solvents to the desired concentration. Fragrances are used for the manufacture of fine perfume products, cosmetic products and many other kinds of products such as laundry detergents, fabric softeners, dishwasher detergents, cleaners and air fresheners.
15. The notifying party submits that there is a very high degree of supply-side substitutability for fragrances and that this market, therefore, should not be further segmented in a narrower way such as distinguishing between different applications (consumer products such as soap/detergents, cosmetics, toiletries and other applications such as fine fragrances). It explains that any fragrance producer can and

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<sup>2</sup> Case COMP/M.2926, decision of 16 September 2002.

does produce any fragrance irrespective of its end-use and can switch production relatively easily from one fragrance to another once the production equipment has been cleaned.

16. In the *EQT/H&R/Dragoco* decision mentioned above, it was found that even though various fragrance compositions are often developed individually by manufacturers in close co-operation with their customers, it is normally possible to get the same or a very similar product from a new supplier.
17. A number of respondents to the Commission's market investigation suggested that also the market for fragrances should be defined on the basis of narrower segments, e.g. according to the different main applications ("consumer product fragrances", i.e. fragrances for household and personal care products on the one hand and "fine fragrances", i.e. fragrances for perfumes on the other hand). At the same time the market investigation indicates that there is supply-side substitutability supporting the argument of the notifying party that a single market for fragrances exists. In their replies to the Commission's market investigation, respondents supported the view that fragrance manufacturers are not specialised with regard to particular fragrances and are in fact able to produce fragrances for all the most important applications.
18. However, the exact product market definition can ultimately be left open in this case, since even if narrower markets (e.g. on the basis of different applications) were defined, no competition concerns would arise, as will be further explained in the competitive assessment.

### **3. Aroma chemicals**

19. Aroma chemicals are chemical substances (molecules) with a distinctive flavour and/or odour. They are used as raw materials in the manufacture of flavour and fragrance compositions. They may be obtained either by isolation from natural sources (such as essential oils) followed sometimes by chemical modification and organic synthesis or direct synthesis from petrochemicals. Aroma chemicals may be used captively in the production of flavour and fragrance compounds or sold to third parties.
20. The Commission held in *EQT/H&R/Dragoco* that aroma chemicals as a whole constitute a distinct (upstream) market. The notifying party submits that the character of the industry has not changed since this decision was reached and consequently aroma chemicals form one separate market.
21. The market investigation in the present case confirms the parties' view with both a majority of customers and all competitors supporting the view that there is one market for all aroma chemicals.

### **B. Relevant geographic markets**

22. The notifying party submits that the geographic markets for flavours, fragrances and aroma chemicals are world-wide in scope. It explains that the general conditions for production and competition are homogeneous worldwide, that transport costs are insignificant and there are no significant price differentials. Moreover, it is submitted that all major competitors are present worldwide and hold similar market shares in all parts of the world.

23. In the *EQT/H&R/Dragoco* case, the Commission confirmed the existence of "*an at least EEA-wide, if not worldwide geographical market*" for flavours, fragrances and aroma chemicals. The market investigation in the present case has to a large extent confirmed this earlier finding with all respondents, both competitors and customers alike, supporting the view that markets are at least EEA-wide. Some elements seem even to militate in favour of a world-wide market, such as the fact that quite a few respondents import these products from countries outside the EEA and a vast majority of respondents stated that market conditions outside the EEA do not differ significantly from those within the EEA.
24. The question whether the markets should be defined EEA-wide or world-wide can ultimately be left open for the purpose of this decision since no competition concerns would arise under either assumption.

## C. Assessment

### 1. Flavours

25. The table below describes the market shares of the combined entity on the flavours markets in the EEA. The market shares are by far not indicative of competition concerns.

*Market shares 2006 based on sales value<sup>3</sup>*

<b>Company</b>	<b>Flavours Market Shares 2006 EEA</b>
Givaudan	[15-25%]
Quest	[5-15%]
<b>Combined G+Q</b>	<b>[20-30%]</b>
IFF	[15-25%]
Firmenich	[5-15%]
Symrise	[10-20%]
Others	[30-40%]

26. The picture of the market structure does not essentially change on the basis of a further sub-segmentation of the product market according to use of flavours by customers as shown by the table below :

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<sup>3</sup> Market data provided in the following tables is based on the parties' own best estimates.

<b>EEA 2005</b>	<b>Givaudan</b>	<b>Quest</b>	<b>Combined</b>
<b>Beverage</b>	[10-20%]	[0-10%]	<b>[15-25%]</b>
<b>Savoury</b>	[20-30%]	[0-10%]	<b>[25-35%]</b>
<b>Confectionery</b>	[10-20%]	[0-10%]	<b>[15-25%]</b>
<b>Dairy</b>	[10-20%]	[0-10%]	<b>[15-25%]</b>
<b>Others</b>	[5-15%]	[0-10%]	<b>[20-30%]</b>

27. The data on market structure indicate, that there seems to be a sufficiently large number of competitors (e.g. Symrise, IFF, Firmenich) to which customers could turn in case of a price increase. Additional competitive constraints on the parties are exercised by smaller players which might be specialised in certain niche products or active only in certain regions. Moreover, the market investigation shows that the parties are not regarded as each other's closest competitors with most respondents considering IFF, Firmenich or Symrise, but not Quest as Givaudan's closest competitor in the flavour market. Indeed, of the 39 responses received from customers, only five mentioned Quest as one of Givaudan's strongest competitors and then only with regard to certain flavours. In a similar fashion, only two of the eight responses received from competitors mentioned Quest as a close competitor to Givaudan, but in so doing, several other competitors were ranked ahead of Quest in terms of competitive strength. In the market investigation, three respondents (one competitor and two customers) suggested that the combined entity could have a strong market position for particular flavours such as citrus and vanilla. However, the same two customers also acknowledged that other producers could supply these flavours if necessary (for example in the event of a price rise).
28. The notifying party submitted that customers in the flavour and fragrance industry source their products through "tenders" (so called "briefs"), which they address to a variety of potential suppliers both global and regional. Moreover, it also submitted that a number of customers established so called "core lists", thereby pre-selecting a number of suppliers that best meet their demands in terms of service, product quality and pricing. The market investigation has indeed confirmed the widespread use of tender procedures and the use of core lists in the markets for flavours (and fragrances). However, it has also revealed that customers are constantly open to revise these lists or to choose a supplier that is not on these lists.

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<sup>4</sup> For technical reasons relating to their internal reporting system the parties were only able to provide 2005 data for this sub-segmentation.

29. The market investigation provided a mixed picture on the barriers to switching supplier. In the first instance, the nature in which new products are developed and the long-term relationships between suppliers and customers (generally between six months and two years in the flavours industry and more than two years in the fragrance industry) may tend to lock customers into an agreement with a particular supplier once it has been successful in a tender for a new project. In this respect switching to a new supplier can be time consuming and costly. This is mainly because it is very difficult to "copy" an existing flavour without any conceivable changes to its "profile", i.e. the taste, smell or consistency of the product concerned. In addition, tests would have to be carried out to ensure that raw materials sourced from the new supplier fulfilled quality standards. While there are such indications that it might be not easy for all customers to switch a supplier at short notice, the merger would not essentially affect this issue. The market investigation did not reveal that any customer was sourcing the same flavour from Givaudan and Quest.
30. Moreover, customers have confirmed that despite certain obstacles, they would be ready to switch supplier if there was a problem in terms of quality or service, as well as to reduce costs. Three customers also indicated that in cases, in which they had to switch, they took this as an opportunity to improve the flavour or fragrance in question. The Commission has indeed found numerous examples of customers switching their suppliers for a given product in the past. Also all of the parties' competitors confirmed that customers do change their suppliers despite the existing barriers.
31. In addition, the market investigation indicates that there are no major barriers for new suppliers to be listed on a customer's core list, should this customer wish to enlarge his list. Customers use their core lists in order to shorten and simplify their selection procedure. The core lists allow them to invite several suppliers to submit offers by way of a "fast track" tender, a function of the core lists which can be perceived rather as pro-competitive. The Commission has particularly verified whether the "first step" in this tendering process, i.e. the competition for becoming a member of the core list, is sufficiently open. In this respect, the market investigation has confirmed the dynamic nature of core lists and customers' willingness to consider new suppliers for inclusion on these lists subject to certain qualification procedures (such as product sampling and quality audits). One customer, by way of example, mentioned that these procedures could take 3-4 months.
32. Finally, the investigation also confirmed that competitors are not constrained in their capacity due to the fact that, if need be, all flavour and fragrance products could be produced with the same production equipment, subject to (minor) adjustments and the cleaning of the equipment.

## **2. Fragrances**

33. The following table shows that the combined market shares of the parties in the fragrances market do not give rise to any competition concerns.



*Market shares 2006 based on sales value*

<b>Company</b>	<b>Fragrances Market Shares 2006 EEA</b>
Givaudan	[10-20%]
Quest	[5-15%]
<b>Combined G+Q</b>	<b>[20-30%]</b>
IFF	[10-20%]
Firmenich	[10-20%]
Symrise	[5-15%]
Others	[30-40%]

34. Furthermore, even on the basis of a narrower segmentation, distinguishing between fine fragrances and consumer product fragrances, the parties' combined market shares, as can be seen in the table below, are also not indicative of any competition concerns:

*Market shares 2005 based on sales value<sup>5</sup>*

<b>EEA 2005</b>	<b>Givaudan</b>	<b>Quest</b>	<b>Combined</b>
<b>Fine Fragrances</b>	[10-20%]	[5-15%]	<b>[20-30%]</b>
<b>Consumer Product Fragrances</b>	[10-20%]	[0-10%]	<b>[15-25%]</b>

35. Moreover, the same competitive analysis as outlined for flavours holds true for the area of fragrances. Firstly, the market investigation has confirmed that – despite some specialisations – any fragrance supplier can in principle supply any type of fragrance.
36. Secondly, the investigation has revealed that some fragrances are developed in (exclusive) cooperation with the customers, especially in the sub-segment of fine fragrances. However, the merger does not give rise to any competition concerns in this respect, since it would not change the competitive landscape considerably. In fact, as evidenced by the results of the market investigation, the parties are not regarded as being each other's closest competitors with only one respondent ranking Quest as a close competitor to Givaudan and even then after several other competitors. In addition, there are a number of other strong players in this area, such as IFF and Firmenich as well as smaller, specialised suppliers such as Takasago.

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<sup>5</sup> For technical reasons the parties were only able to provide 2005 data for this sub-segmentation.

37. Moreover, also in the area of fragrances, competition takes place by way of tender procedures and core lists, and the market investigation has confirmed that switching a supplier is not only possible, but has actually happened in the past.

### 3. Aroma Chemicals

38. The following table shows that the parties' combined market shares on the market for aroma chemicals are rather modest, and that there are a considerable number of other players which can prevent the merged entity from acting without competitive restraints.

*Market shares 2006 based on sales value*

<b>Company</b>	<b>Aroma Chemicals Market Shares 2006 EEA</b>
Givaudan	[5-15%]
Quest	[0-10%]
<b>Combined G+Q</b>	<b>[10-20%]</b>
IFF	[15-25%]
Firmenich	[15-25%]
Symrise	[5-15%]
BASF	[10-20%]
DSM	[10-20%]
Others	[0-10%]

39. In addition, respondents in the market investigation indicated that the market players also have excess capacity which could be used in case of a price increase by the merged entity. Furthermore, given that Quest only has a limited presence on this market, the intended transaction does not change the competitive landscape considerably. Finally, the market investigation also confirmed that there are no competition concerns on this market.

40. The limited market position of the parties on the aroma chemicals market also means that the transaction does not give rise to any competition concerns regarding vertical relationships between the merged entity as a producer of aroma chemicals and competitors on the downstream markets for flavours and fragrances.

## V. CONCLUSION

41. The new entity would become the market leader on the markets for flavours and fragrances in the EEA. The combined market shares of the parties would reach [20-30%] in flavours and [20-30%] in fragrances on the basis of the market definition suggested by the parties. On a more specific segmental basis, the parties would have combined market shares ranging between [15-30%] in flavours and [20-30%] in fragrances. However, post-merger there would still remain a number of fairly strong players and a considerable number of smaller players on these markets.
42. In the light of the above, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EC) No 139/2004.

For the Commission  
signed  
Neelie KROES  
Member of the Commission