

COFECE closes file on barriers to competition in the seeds and grain markets for beer production

- *During the investigation stage, Impulsora Agrícola, a company of Grupo Modelo and Heineken Mexico, was dissolved and began liquidation. This was the sole supplier of seed for the production of malting grain and the main purchaser of grain in the country.*
- *Therefore, the Board of Commissioners decided to close the file, due to the absence of sufficient elements to determine the lack of effective competition conditions, as the effects on the market of the dissolution of the company and how Modelo and Heineken will source the grains, can only be observed once the agricultural cycles have concluded, after the most recent period of the Investigative Authority's investigation come to an end.*

Mexico City, June 28, 2017.- The Board of Commissioners of the Mexican Federal Economic Competition Commission (COFECE or Commission) decided to close the investigation to determine if there are barriers to competition in the production, distribution and merchandising of malt barley seeds and grains for beer production. This is because Impulsora Agrícola (IASA), a company in which, Grupo Modelo (ABI Group) and Heineken México (HNK Group), the two main brewing groups in the country, participated, ceased to operate. Since 1958, the company was practically the only supplier of seeds and sole purchaser of the grain in the country.

In January 2016, COFECE's Investigative Authority issued an initiation decision to determine the possible existence of barriers to competition in the market for the production, distribution and merchandising of malt barley seeds and grains to produce beer (File IEBC-01-2016). The objective cause was the existence of IASA, a company in which the two main breweries of the country are shareholders and that almost exclusively sold the seed and bought the grain from farmers. Additionally, they made the purchase of grain subject to the sale of seeds and controlled the destination of the farmer's surpluses.

IASA was a company whose purpose was to ensure the supply of grain with the technical specifications defined by the ABI and HNK malt producers. This was done through a sui generis variant of contract farming schemes, which established that IASA would sell the seed to the farmers, in exchange for the purchase of the harvested grain. Thus, if the farmer did not acquire the seed from IASA, the company would not buy the malt barley grain. IASA was both the main supplier and buyer and therefore the only intermediary between barley seeds and malt in the country.

The maltsters informed IASA of the volume of grains required for the subsequent cycles and unilaterally planned the volumes and varieties of the seeds supplied in the market, the production of grain each season and negotiated with farmers the terms of purchase, volumes and delivery points of said product. The intermediary also defined and established the causes for refusal, price increases and discounts applied to the producers on delivery of the grain. These operations were executed by commercial agents that represented the ABI and HNK maltsters in the purchase and selling of seeds and grains, respectively, despite being one in the same, they invoiced the operations.

With the dissolution and liquidation of IASA during the investigation phase, the Board of Commissioners decided to close this file, considering the absence of sufficient elements to determine the inexistence of conditions for effective competition. The effects of the dissolution and the way that ABI and HNK source the grain, independently, will only be appreciated in the market when the subsequent farming cycles conclude, after the last period of investigation by the Investigative Authority.

In addition, during the investigation, Grupo ABI and Grupo HNK informed COFECE that IASA and Extractos y Maltas and Cebadas y Maltas, both subsidiaries of ABI and HNK's Cervecería Cuauhtémoc Moctezuma, decided to release vegetable varieties "Doña Josefa", "Adabella", "Armida" y "Alina" and publish their information, in May 2017, on the type of grain they cultivate, required for the production of malt. Considering this and that presented by these agents, third parties may produce and freely market these varieties of vegetables without authorization or consideration, said information may be corroborated at the end of the planting/harvesting/marketing cycle.

Regardless of the closing of the file, COFECE has the powers to subsequently investigate and analyze the circumstances and market conditions, as well as any possible practice contrary to the competition process related this case.

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The Federal Economic Competition Commission is entrusted with safeguarding competition and free market access. Through these, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, it seeks better conditions for consumers, greater output and better services and a "level playing field" for companies.