PHILIPPINE COMPETITION COMMISSION
Ensuring businesses compete and consumers benefit

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PCC blocks merger-to-monopoly deal between URC, Don Pedro-RHI sugar millers

The Philippine Competition Commission (PCC) has blocked the merger between the two sugar millers in Southern Luzon—Universal Robina Corporation (URC), and Central Azucarera Don Pedro Inc. (CADPI) and Roxas Holdings Inc. (RHI).

In a Commission Decision prohibiting the merger issued on Tuesday, PCC found that URC's buyout of its only competitor in the sugarcane milling services market leads to a monopoly in Southern Luzon.

The PCC earlier raised competition concerns on URC's proposed acquisition of CADPI and RHI assets. The parties then voluntarily submitted commitments but these failed to sufficiently address the competition concerns.

"The prohibition prevents this deal from creating a monopoly in the relevant market that could harm the welfare of the sugar cane planters. It is the duty of the Commission to prevent the creation of monopolies when applying the merger control powers conferred on it by the Philippine Competition Act," PCC Chairman Arsenio M. Balisacan said.

URC's sugar mill is in Balayan while CADPI-RHI's milling facilities are in Nasugbu. Both mill operators are in Batangas but the monopoly to be created by the merger will substantially lessen competition in the sugar milling services market not only in Batangas, but also in Cavite, Laguna, and Quezon.

The Commission also noted that while the transaction mainly affects sugarcane farmers in Southern Luzon, the sugar processed from these facilities serve nationwide demand, including that of Metro Manila.

The PCC's market investigation earlier showed that farmers stand to lose the benefits of competition due to the merger, especially in terms of planters' cut in sharing agreements, sugar recovery rates, and incentives.

Specifically, the PCC's Mergers and Acquisitions Office raised the following competition concerns:

- The transaction is a merger-to-monopoly and will eliminate the only competitor of URC in the relevant market;
- The transaction will create market power for URC and allow it to unilaterally reduce the planters' share in the planter-miller sharing agreement, the theoretical recovery rates quoted to planters, and the incentives provided to planters;
- Other sugar mills outside of Batangas are too far (Pampanga, Tarlac, Camarines Sur), thus not sufficient to constrain URC from exercising market power; and
- Barriers to entry are high and the possibility of a new entrant seems remote and, if at all possible, may not be immediately forthcoming as to constrain URC from exercising market power after the transaction.

URC is engaged in a wide range of food-related businesses, including the production of packed foods and beverages, sugar, agro-industrial products, and bioethanol. Its mills are located in Batangas, Iloilo, Negros Oriental, Negros Occidental, and Cagayan. These mills produce raw sugar, refined sugar and molasses for supply to other URC business segments and third parties.

On the other hand, RHI owns 100% of the shares of CADPI, which operates an integrated sugar cane milling and refining plant in Batangas. RHI is also engaged in the trading of raw and refined sugar, and molasses.

"A merger-to-monopoly deal is among the most detrimental types of business transactions. The URC takeover removes its only competitor, erodes the benefits of competition for the sugarcane planters, and leaves market power at the hands of a single provider in an area," Balisacan said.

ABOUT THE PHILIPPINE COMPETITION COMMISSION

The Philippine Competition Commission is an independent quasi-judicial body established by the Philippine Competition Act (R.A. No. 10667) to review mergers and acquisitions for possible substantial lessening of competition in the market and investigate anti-competitive conduct by businesses across all sectors. Through its legal mandate, PCC aims to ensure that businesses compete and consumers benefit from fair market competition.

ABOUT PCC'S PROHIBITION POWERS ON TRANSACTIONS WITH SLC: SEC. 18(A) OF THE PHILIPPINE COMPETITION ACT

If the Commission determines that the merger or acquisition substantially prevents, restricts or lessens competition (SLC) in the relevant market and does not qualify for exemption under the Philippine Competition Act, the Commission may prohibit the implementation of the merger or acquisition.

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