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From cohabitation to marriage

The background and consequences of

Carlsberg's & Tuborg's "beer wedding" of 1970

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Introduction

This paper concerns one of the largest and most well-known mergers in Danish business history known as the "beer wedding of Carlsberg and Tuborg, May 25, 1970". According to corporate biographies the negotiation before the merger took less than a year.[1] In fact the two breweries had been engaged in a trust-like agreement for 67 years. This was an agreement according to which all profitability was shared equally between the partners and the agreement also made it difficult for Carlsberg and Tuborg to invest abroad. Such investments had to be confirmed by the partner, which often was reluctant to do so. The paper is introduced by a description of the peculiar 1903-agreement. Then follows a section on the production- and export- level of the two companies from around 1950 to 1970 and finally the consequences of the merger will be described. In the conclusion we will try to unveil the consequences of the agreement and discuss why Carlsberg continued with the peculiar 1903 agreement for 63 years.

The peculiar 1903-agreement

The first official Carlsberg biographer, Arnold Fraenkel, described the Danish lager beer market in the 1870'ties and 1880'ties as a 'Manchester-like' and anarchistic market.[2] It might have sounded promising for a liberal, but to Fraenkel it was of the utmost importance to avoid this destructive competition and establish an efficient cartel.[3] In 1881, 1883 and 1890, attempts were made to establish self-regulation of the market, but in vain. However, the prospects of the introduction of beer taxes in 1891 seemed to have had a decisive impact. The tax caused stagnation in the demand for lager beer and consequently the breweries felt motivated to regulate the competition.

Table 1 **Gamle Carlsberg's share of Denmark's production of Bavarian beer, 1872-1896**

Year	App. share in %
1872	41 %
1881	23 %
1886	29 %
1892	30 %
1893	31 %
1894	31 %
1895	30 %
1896	27 %

Source: Fraenkel, Gamle Carlsberg (1897)

In the early 1890'ties, the incentives for self-regulation were particularly strong for the largest Danish Breweries – Gamle Carlsberg and Ny Carlsberg – as they were faced by intensified competition from new products.

In 1881, Tuborg Fabrikker introduced pilsner beer to the Danish market. The new beer was, unlike other beers, bottled at the new brewery, Tuborg Breweries, and they established an alternative distribution network outside the traditional local distributors. The lighter pilsner completely changed the market. In 1893, traditional "Bavarian" lager still amounted for 95 % of the beer production, but by 1912, its market share was reduced to 36 %, as pilsner became the most important beer type. Gamle Carlsberg's og Ny Carlsberg's incentive to regulate the competition was further strengthened in 1891 when the important business tycoon Carl Frederik Tietgen succeeded in uniting 11 small lager and "hvidtøl" (a Danish type of household beer) breweries in Copenhagen to the new company United Breweries (De forenede Bryggerier or in short "DfB" (hereafter called Tuborg). In September 1894 Tuborg Fabrikker joined the new Tietgen company and the Chairman of the Board of Directors at United Breweries, Harald Fritsche, left no doubt about the intention of the merger: "DfB will attain a completely different position from the one we have now, and this position will cause a more equal co-operation with the two large lager beer breweries [Gamle Carlsberg and Ny Carlsberg, Authors], which perhaps can contribute to homogenous rules for sale and credit.”[4]

The result of Harald Fritsche’s invitation to further corporation with Carlsberg was realized in February 1895 when United Breweries and Carlsberg signed a 10-year market agreement. The two Carlsberg breweries abstained from producing “hvidtøl” and the three breweries’ future production was fixed on the basis of the production in the previous four years. The beer market in Copenhagen was thus regulated, but all the provincial towns were still open to “anarchistic” competition. In the autumn of 1898, several meetings were held between the brewers in the different regions of Denmark and a country-wide price and competition agreement was signed in September 1899.[5] The three large Copenhagen breweries committed themselves to take higher prices outside Copenhagen and it was prohibited to loan money to customers and to use other types of alternative competition methods. At the end of the negotiations Tuborg’s CEO Benny Dessau enquired after the future of the 1895 agreement. Gamle Carlsberg’s CEO, Søren Aa van der Kühle, replied that in 1904 – when the agreement ended – it would be impossible to get a cartel agreement unless the profit was shared. The next step after cartel was a real trust.[6]

Gamle Carlsberg’s willingness to enter such a trust was enhanced in 1902 when Carl Jacobsen transferred ownership of Ny Carlsberg, to Carlsberg Foundation as his father had already done with Gamle Carlsberg in 1878. Both Gamle Carlsberg and Ny Carlsberg faced substantial investment in bottling equipment for the new Carlsberg Pilsner beer introduced in 1904. The cautious owners in Carlsberg Foundation – led by scientists without specific knowledge of the brewery industry – were therefore eager to continue the 1895 cooperation in some form, and on the initiative of Carlsberg’s CEO, Søren Aa van der Kühle, Carlsberg and Tuborg initiated negotiations in the autumn of 1902 concerning a new agreement. The basic principle of the agreement, signed in May 1903, was equality: The partners were equally represented in the common management, the profit was equally shared every year and new investments were equally financed by the partners. The 1903 trust has been described as the most peculiar agreement in Danish business history. When it was signed it had an exceptional lifetime, namely 97 years until September 30, 2000, and even more remarkably, it operated with one idea – common profitability and shared investment – simultaneously with two independent companies in terms of production and sale.[7]

This odd dualism proved to be problematic from the very beginning. Due to its success with bottled pilsner beer, Tuborg had already by 1909 paid DKK 3.35 million directly to Carlsberg and so Tuborg demanded a new agreement for profit sharing.[8] By the end of 1909 a compromise was agreed upon and in the following six years Carlsberg paid DKK 900,000 extra to Tuborg. But this compromise endangered the whole idea of profit sharing. In 1916 and 1921 attempts were made to merge the companies, but at the first attempt Vagn Jacobsen (grandson of Carlsberg’s founder J.C. Jacobsen and son of Carl Jacobsen) prevented the merger by raising a public debate about the future of Carlsberg Foundation. In 1921, Tuborg’s dynamic CEO Benny Dessau planned a new nationwide trust including all large Danish breweries, but this far-reaching plan was opposed by the Chairman of the Executive Board at Carlsberg Foundation, Professor and historian Dr. Kristian Erslev. The end-result was an accepted – but not passionate – partnership between Carlsberg and Tuborg from 1921 to 1970.[9]

Besides the sharing of all investments and profits, Carlsberg and Tuborg had the right to appoint the Chairman of the Executive Committee at the national Brewers’ Association (Bryggeriforeningen), which hosted the national price and market agreement from 1899. This agreement existed until 1988 and besides price regulation it also limited the marketing methods and defined the rules for distribution. In 1899, the Brewers’ Association consisted of 31 breweries, but market conditions were difficult. In 1911, a new political proposal for higher beer taxes were made, but the Brewers’ Association warned about the consequences particularly for the small breweries:

In the last 12–15 years most of the breweries in this country have fought hard for their life. Of the countries’ 37 lager beer breweries, five have gone bankrupt. Attempts have once more been made to reconstruct these, but it has succeeded for one of them.

Beer production fell from 917,000 hectoliters in 1899 to 905,000 hectoliters in 1914 and the small breweries in particular felt the effects of a declining market, higher prices for raw materials and more efficient large competitors. In the 1920’ties, Tuborg’s share of the Danish market was around 30–33 % and Carlsberg’s was around 42–44 %, or together more than 73 %.[10] Particularly in the early 1920’ties the market share rose for both companies at the expense of the small provincial breweries. The two large breweries in Copenhagen further strengthened their position after the Second World War and by 1950 they had around 81 % of the total market. Perhaps even more importantly, the Danish beer market grew dramatically from around 1.5 million hectoliters in 1945 to 2.8 million hectoliters in 1959.

Table 2 **Members of the Danish Brewers’ Association 1899-1990**

	1899	1930	1945	1959	1980	1990
Breweries	31	26	25	24	19	12
Production	0.9	1.2	1.5	2.8	3.8	3.8
Employees	5,000	5,500	6,800	9,500	4,400	4.000

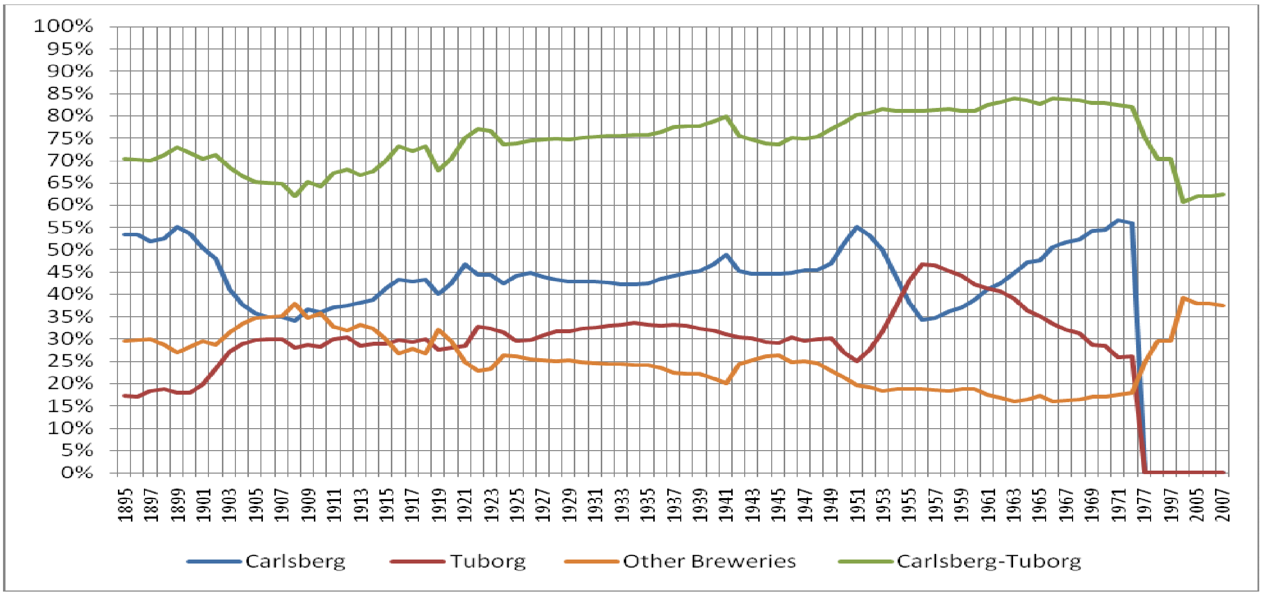
Source: Dahlberg et. al. (1999)

Pressure on the Carlsberg-Tuborg 1903-agreement

The steady progress in market shares and total production combined with stable profits probably suppressed potential conflicts between Carlsberg and Tuborg, which still operated and regarded themselves as two independent companies. But gradually, in the 1950’ties and 1960’ties, the 1903 agreement came under severe pressure for three reasons: the unreasonable profit sharing, growing exports and the authorities' growing interest in price agreements.

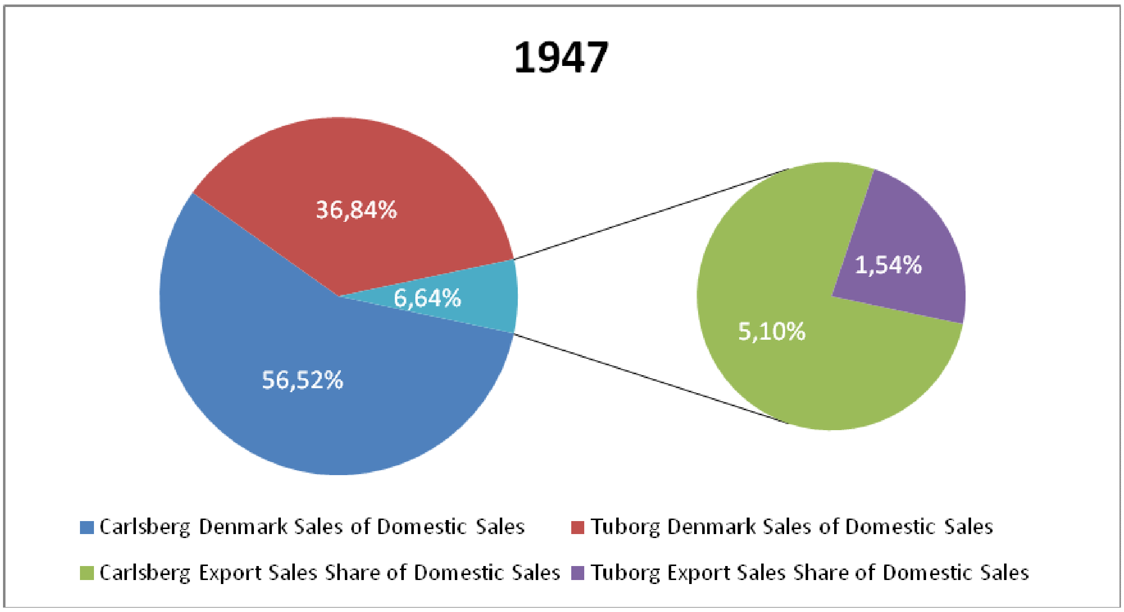
As stated earlier, the equal sharing of all profit was a source of tension between the two partners from 1909 on. A compromise was reached in 1912 and until 1938–1939 the difference was not remarkable. But gap widened after 1932 because of Carlsberg's growing sales. From 1902 to 1914, Tuborg paid DKK 5.5 million extra to Carlsberg, while between 1915 and 1948 Carlsberg paid DKK 29.8 million to Tuborg.[11] By the end of the 1940'ties both partners agreed that the situation was not tenable. Tuborg argued that the partners should increase their marketing budget as Carlsberg had strong advantages as a national institution that supported scientific and cultural purposes.

Table 3 **Market shares of the Danish beer market 1895-1972 (divided on Carlsberg and Tuborg until 1972), 1977, 1987, 1997, 2005, and 2007 (combined Carlsberg-Tuborg)**



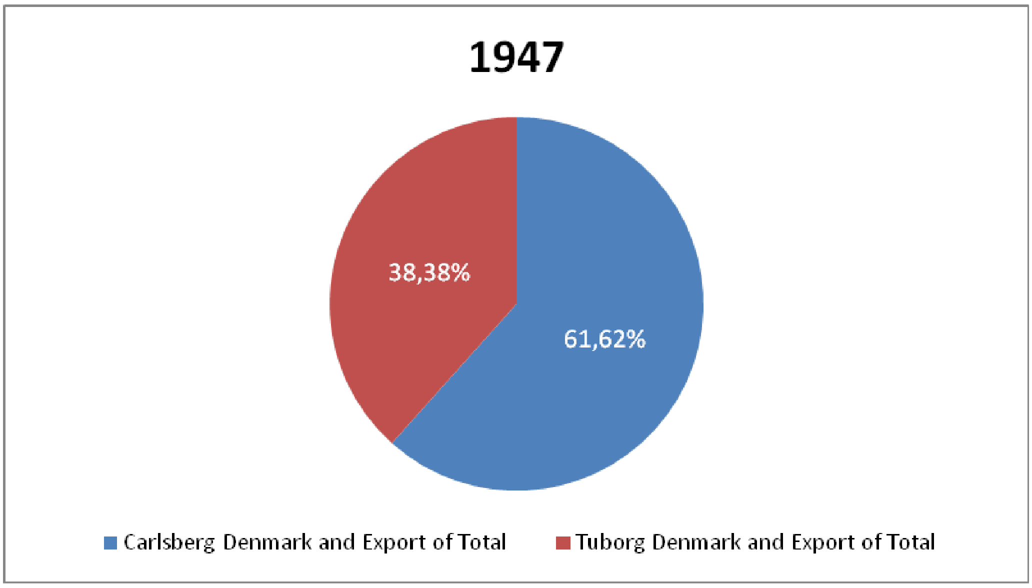
Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72, and the individual years 1976/77, 1986/87, 1996/97, 2005, and 2007 (a division of Carlsberg and Tuborg after 1972 is not possible, due to lack of data material)*

Table 4 **Carlsberg' and Tuborg's Combined Sales Volume 1947**



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72*

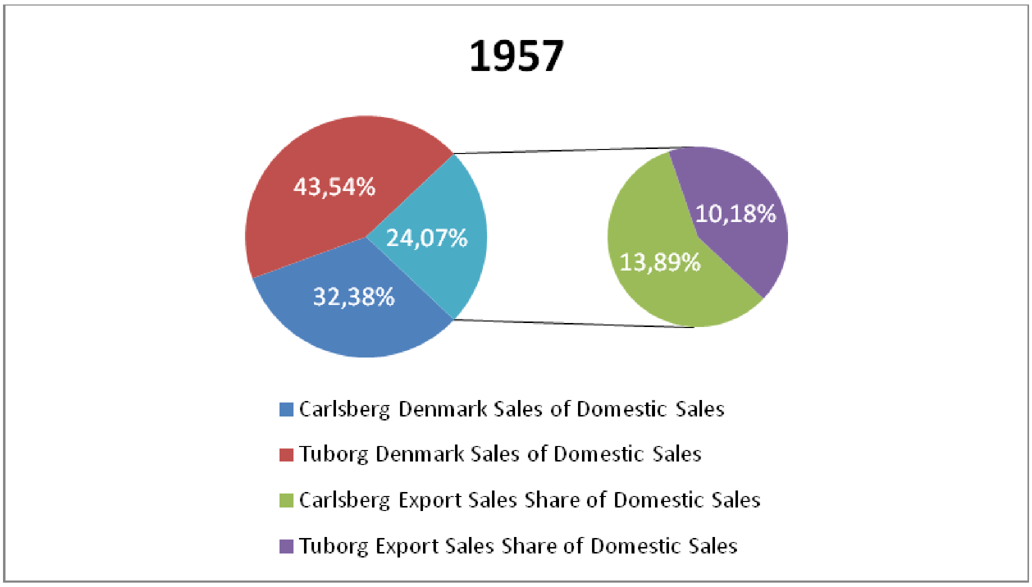
Table 5 **Carlsberg' and Tuborg's Combined Export Sales Volume 1947**



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72*

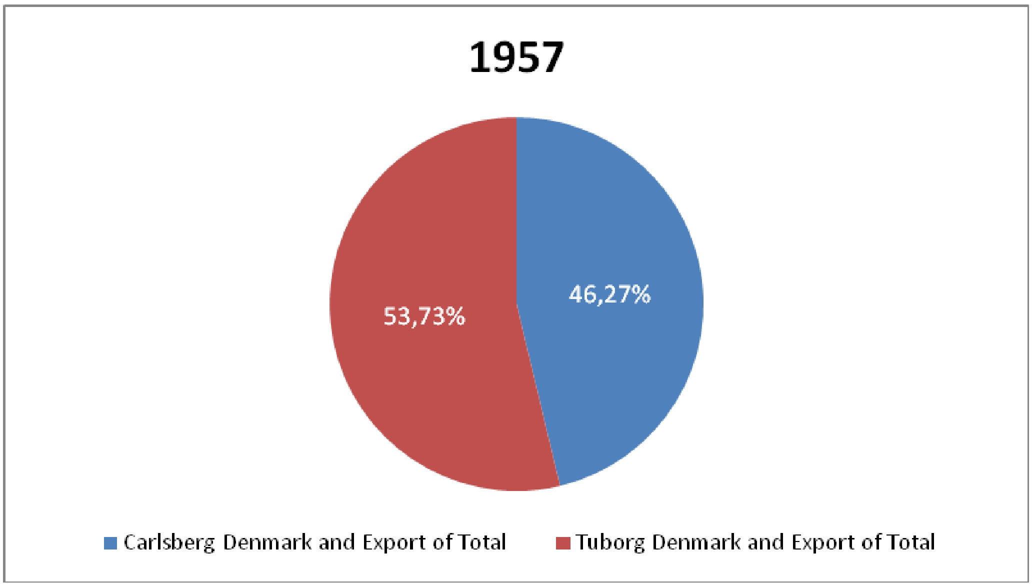
Carlsberg on the other hand pointed out the need for an investigation of the causes of higher production expenses at Tuborg Brewery site in Hellerup compared with Carlsberg Brewery site in Valby. Tuborg rejected the need for such an investigation and demanded the matter referred to arbitration. Here it was confirmed that the 1903 agreement did not include any guarantee for balance in profitability. The issue was about to become a real crisis for the partners as Carlsberg was suddenly hit by unexpected production problems caused by so-called "wild yeast", which disrupted fermentation. From 1950 to 1955, Carlsberg's market share fell from 55.2 % to 34.3 % while Tuborg's market share rose from 25 to 46.8 %.[12] Tuborg again supported Carlsberg and the conflict evaporated. In 1956 Carlsberg's technicians found the cause for the problems and at the same time a new and strong CEO – A.W. Nielsen – was appointed.

Table 6 **Carlsberg' and Tuborg's Combined Sales Volume 1957**



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72*

Table 7 **Carlsberg' and Tuborg's Combined Export Sales Volume 1957**



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72*

Carlsberg's market share rose again from 48.7 % in 1957 to 64.4 % in 1969.[13] In other words, the situation had returned to the one seen in the late 1940'ties – and it was still not tenable.

The agreement of 1903 was based on the assumption that the partners' profit would contribute approximately equally and it included no regulating mechanisms in the case of unequal profitability.

Perhaps even more aggravating, the 1903 agreement included no statements about exports. Tuborg's exports grew from around 25.000 hectoliters in 1945/46 to 250.000 hectoliters in 1956/57 while Carlsberg's grew from 83.000 hectoliters in 1946/47 to around 341.000 hectoliters in 1956/57 and it then expanded further to 845.000 hectoliters in 1968/69.[14] In the 1960'ties some of the large international breweries went through structural changes, followed by investments in foreign facilities. The Dutch family-owned brewery group Heineken of the Netherlands bought its primary competitor, Amstel of the Netherlands – and invested in its own production facilities in England. Carlsberg wished to make a similar investment in

England, but Tuborg opposed the idea, arguing that it would hamper the important export to England and thus weaken the Danish breweries. According to the former Chairman of the Board of Directors at United Breweries, Dr. Bernt Hjejle, Carlsberg lost around ten important years on the UK market due to the limiting 1903 agreement.[15]

In the 1950’ties and 1960’ties the Danish public monopoly authorities (Monopoltilsynet) also investigated the 1903 agreement, to see whether the agreement caused any unreasonable disadvantages to customers. The authorities were particularly interested in the way Carlsberg and Tuborg shared production expenses and profit. The question was whether the fixed market prices were based on Tuborg’s high production costs or Carlsberg’s lower ones.

The so-called Trust Commission (Trustkommissionen) was appointed in March 1949 by the Danish government to investigate to what extent the Danish business environment was marked by restriction of free competition and to assess whether a new competition law was needed.[16] The investigation of the breweries began in 1950 along with a few other industries that were regarded as being regulated by private companies. After several years of work the authorities submitted a draft of its conclusions to Carlsberg, Tuborg and Bryggeriforeningen in November 1956.

The conclusions were very critical of the 1903 agreement and its consequences for the brewing industry as a whole. In a subsequent letter to the authorities, Carlsberg and Tuborg defended the 53-year-old agreement strongly.[17] According to this reply the partnership was – and always had been – marked by strong internal competition both in terms of production and sale. According to the letter, the agreement’s lifetime (until September 2000, eds.) was an essential explanation for this competition – in other words, each of the partners were aware of the need for a strong position 44 years later. The unique feature in the 1903 agreement was, according the letter that it had retained a specific kind of competition that eliminated the usual disadvantages of competition – namely unreasonably high sales and marketing costs.[18] In the final report on competition in the Danish beer market, the Trust Commission loyally referred to Carlsberg/Tuborg's objections, but the final conclusion left no doubt about the consequences of the industry's self-regulation:[19]

According to the information the commission has received from the breweries, the stable mutual market shares are not caused by any allocation of the customers or any other similar transfer of businesses from one partner to the other and the commission has no reasons to doubt the Breweries' comments regarding a sharp competition in the daily sales promotion... On the other hand it should also be emphasized that competition has been limited due the 1903 agreement, additional clauses, the shared managements' decisions, and the two breweries participation in Brewers' Association's agreements (the 1899 agreement, authors). Price competition has been abolished, advertising expenses have been jointly decided upon, and... the different competitive devices have been restricted.

The equivocate conclusions meant, that the Trust Commission's report had no immediate consequences for the 1903 agreement. But the problem caused by Tuborg's inefficiency and the unequal shared profit was still present. In a book about the 1970 merger, the Chairman of the Board of Directors at United Breweries Dr. Bernt Hjejle regarded the monopoly authorities as a volcano under the 1903 agreement, which included a number of agreements, "quite inconsistent with the lines that the Monopoly authorities gradually draw out as principle viewpoints for their work".[20]

The national "beer wedding" in 1970

In August 1969, the Brewers' Association applied to the Danish Monopoly Council for permission to raise Danish beer prices. The authorities rejected the application because the breweries' calculations showed that Tuborg had substantially higher production costs than Carlsberg. The former Chairman of the Executive Board at Carlsberg Foundation, Professor, Dr. Kristof Glamann, has described the succeeding events in following words:[21]

With this background, the Monopoly Council found that the 1903 agreement had developed into a pretext for doing nothing and that the time had come for a structural change within the brewery industry. The most efficient company’s result s should form the basis for decisions concerning higher prices, and not an average cost calculation that blurred the picture. The refusal started negotiations between the partners.

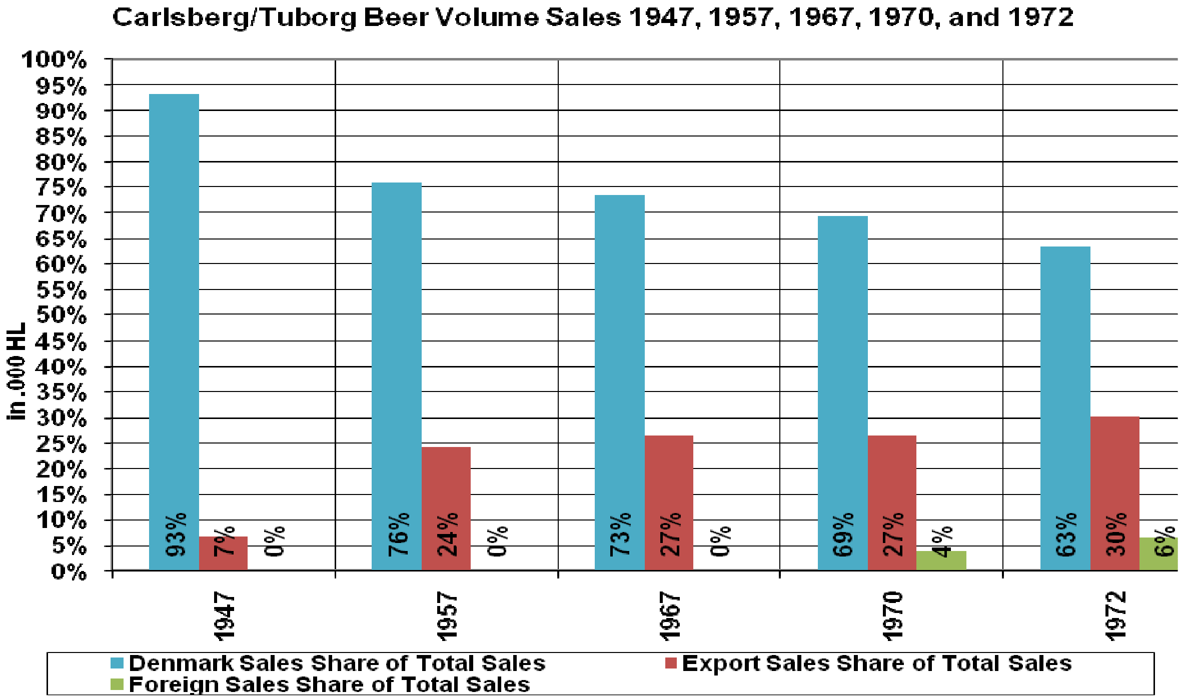
Three months earlier, in May 1969, the council of the Carlsberg/Tuborg trust held a meeting with three items on the agenda, which mirrored the acute problems of the 1903 agreement:[22]

1) Discussion about the Monopoly authorities’ attitude towards the trust
2) Carlsberg and Tuborg’s need for capital in the following years
3) Carlsberg and Tuborg activities abroad

The Chairman of the Executive Committee at Carlsberg Foundation, Professor, Dr. Stig Iuul (who had written the answer to Monopoly authorities in 1956), opened the meeting with a long and important speech in which he stated that the European Community and the following economic integration, plus the unequal profitability created an urgent need to merge Carlsberg and Tuborg. As negotiations began the most difficult issues proved to be the questions of whether the head of the new company should take detailed decisions about the both companies, and whether the new company should be managed by Carlsberg’s CEO, A.W. Nielsen, or Tuborg’s CEO, Viggo J. Rasmussen.

After several months of secret negotiations and a temporary interruption at the turn of 1969/1970, the merger was signed on May 25, 1970. Carlsberg and Tuborg continued as independent production facilities, but within the framework of one private limited company with a share capital of DKK 171 million of which Carlsberg Foundation received the largest block of shares – DKK 85.5 million – as payment for the brewery.

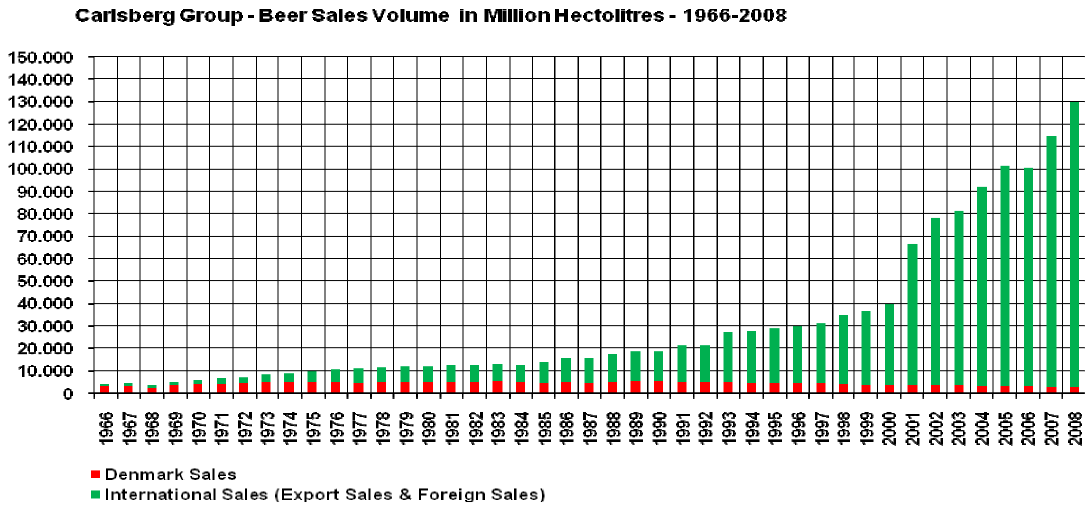
Table 8 **Carlsberg's beer volume of Carlsberg and Tuborg combined, and divided into the shares of Denmark Brewed Sales, Export Brewed Sales, and Foreign Brewed Sales for the years 1947, 1957, 1967, 1970, and 1972**



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72*

The merger had a direct impact on the international activities. The export business of the total beer brewed rose from 27 % to 30 %. From having no foreign beer brewery operations in 1967, the share of the foreign beer brewed rose from 0 % to 4 % in 1970, and then to 6 % in 1972.

In 1968 Carlsberg opened a brewery in Malawi, while Tuborg built a brewery in Turkey (sold on July 23, 2008), and Carlsberg began license production on Cyprus in 1969, while Tuborg began license production in Iran (stopped in 1979). In 1972, Carlsberg opened a brewery in Malaysia, while Tuborg began license production in the Croatian Province of Yugoslavia. In total, the international activities rose from 27 % in 1967 via 31 % in 1970 to 36 % in 1972.



Sources: *Tuborg's Bryggerier A/S 1873-1973, and Carlsberg-Tuborg annual reports for the years 1945/46-1971/72, and the individual years 1976/77, 1986/87, 1996/97, 2005, and 2007*

Internationalization with obstacles

From 1970 until the early 1990'ties, Carlsberg focused on the presence on as many markets as possible around the globe. The method was either to establish own breweries, investment in foreign equity, license agreements or export sales. This global "presence strategy" made the Carlsberg and Tuborg brands world famous, but on most export markets Carlsberg experienced low profitability, and especially on plentiful small, distant export markets Carlsberg lost money – nearly every time an export order was handled.

Besides the unprofitability on small distant export markets, Carlsberg faced problems in controlling and supporting the many license partners brewing Carlsberg and Tuborg beers around the world. Some of the license partners did not follow Carlsberg's instructions for hygiene and quality, which resulted in very low brewing quality. Consequently the premium beer brands of Carlsberg or Tuborg could be damaged, since customers often were international oriented individuals, who then turned to other premium beer brands.

In July 1970, Carlsberg entered a joint venture agreement with Watney Mann & Co. and Carlsberg UK was subsequently owned 51 % by Carlsberg and 49 % by Watney Mann & Co.[23] In the initial years, Carlsberg UK produced 2/3 of its sales volume, while 1/3 was imported from Denmark.[24] In March 1970, Carlsberg entered a license agreement with Truman, Hanbury, Buxton & Co. on the UK markets, and local Tuborg brewing began in the following year.[25]

The British market has always been of importance to both Carlsberg and Tuborg – already in 1939 55 % of all imported British beer came from Carlsberg. Before 1973, when Carlsberg invested in its own brewery, the UK market had seen some huge mergers and acquisitions – and attempts on same.[26] Carlsberg was able to grow and ensure profitability on this difficult market. In 1989, the UK Government conducted a study through the Monopolies & Merger Commission, and the study showed, that the prices for beer was too high, some of the breweries too ineffective often focused more on the control of the pubs rather than efficient production and distribution. The UK Government therefore made the so called “Beer Order”, according to which the breweries should be separated from most of their fully-owned pubs’. The “Beer Order thus lead to either division of the brewery/pub groups or sales of either the brewery or the pub activity.[27]

For Carlsberg UK this was a God-given situation, since Carlsberg did not own any pubs, and now its competitors was occupied for the next years to restructure their businesses, which moved their focus away from the markets. By 1992, Carlsberg UK contributed with more than half of the entire profit of Carlsberg. Carlsberg’s CEO from 1972 to 1996 Poul Johan Svanholm, understood in the early 1990’ties that the focus on a single market or larger region could a lot more profit, than being represented all over the world in minor scale. Svanholm could also see that the structure of the breweries was now marked by bigger constellations. Especially the British market had changed dramatically since Carlsberg took over full ownership of Carlsberg

UK. In the long-run it meant, that if Carlsberg should continue to be a large brewer, the Danish brewery had to focus on fewer markets.

Svanholm on this background formulated a rather simple “Vision 2000” plan for Carlsberg: Carlsberg should focus on the West European and South Asian markets, and through these markets become one of the largest brewery groups in the world at year 2000. The rationale was that West European markets are developed markets, where Carlsberg could make a solid profit; while the South Asian markets were developing markets in which future growth could be ensured. Carlsberg was in 1992 – beside the UK – represented with its own breweries in Italy (since 1982), Spain (since 1986) and in Portugal (since 1991), while the brewery was present in several South Asian markets mainly through license agreements.

According to Carlsberg’s Vision 2000 it was needed to acquire or merge with one of the big English breweries. Luckily for Carlsberg, several of the big English breweries were conglomerates in deep financial difficulties. One of them was Allied-Lyons, which beside financial difficulties; also had to relinquish itself from its pubs. Beside this, Allied-Lyons was hit by a financial scandal on its Board of Directors level. In other words, Allied-Lyons was very positive to Carlsberg’s approach to them. Together they decided to form a 50/50 joint venture named Carlsberg-Tetley – Carlsberg after their biggest larger beer brand and Tetley after their biggest ale beer brand.

Through the creation of Carlsberg-Tetley, Carlsberg and Allied-Lyons entered major UK politics, and the merger caused a debate to which extent the Beer-Order caused foreign take-over of British “interests”. That was not the intention with the “Beer Order” and Carlsberg and Allied had to wait 11 months for a merger approval from the UK Minister of Commerce & Industry, Peter Lilley.[28]

Following the approval, Carlsberg-Tetley possessed app. 18 % of the UK market, while Courage (owned by Australian conglomerate Elders IXL, which owned the Foster's brand) possessed app. 20 % and Bass app. 23 %. Carlsberg-Tetley became a great success for Carlsberg, since Carlsberg-Tetley gains a lot profit from restructuring. Allied-Lyons then mergered with Pedro Domecq and became Allied Domecq – focused on spirits and wines. In 1997 Carlsberg acquired Allied's shares in Carlsberg-Tetley and all Allied Domecq's beer brands. Due to an internal agreement the price was relatively cheap and Carlsberg had made its second great deal in the UK within five years, and was by the end of the 1990'ties 100 % owner of Carlsberg-Tetley.[29]

Carlsberg's long-run for securing the Nordic region

In the first half of the 1970'ties Carlsberg was faced with the fact, that several of its competitors on the Nordic markets could be swallowed by international brewery groups. A large international brewery group could easily buy one of the larger Nordic brewery groups, and then expand to the other Nordic countries through this brewery group.[30] Such considerations were typical in the years surrounding the Danish membership of the European Community January 1, 1973.

In 1972, Carlsberg acquired 10 % of the Finnish brewery group Sinebrychoff. It was a long-term investment, since Carlsberg was unable to make any license agreements regarding production of Carlsberg beers in Finland – due to the laws at that time. Only around 20 years later – in September 1989, Sinebrychoff began to produce Carlsberg and Tuborg beers on license. Prior to the investment in Sinebrychoff Carlsberg also had approaches to Sinebrychoff's main competitor in Finland, Hartwall, regarding Tuborg beer, but the Hartwall family was not interesting in any equity investments from Carlsberg. [31] In 1996, Carlsberg became the majority owner of Sinebrychoff, and in 2002, Scottish & Newcastle bought Hartwall from the Hartwall family.[32]

One of Carlsberg's main concerns was if the Swedish competitor Pripps

Bryggerierna should acquire the Danish medium sized Ceres Bryggeriet. In that case Pripps' Bryggerierna could invest in an offensive establishment on the Danish market, since Pripps' Bryggerierna was owned by the Swedish holding company Pribo Holding – ultimately controlled by the Swedish Government.[33] Knud Erik Borup, the newly appointed Senior Vice President and Head of International Division of Carlsberg, therefore in 1975 made a smart plan, which was typical for the period as it was a market-controlling agreement, securing the "partners" on the Nordic markets for many years ahead.

Carlsberg granted Pripps' Bryggerierna the license to Carlsberg and Tuborg beers in Sweden, and on the other hand Pripps' Bryggerierna committed them to divest the investment in Ceres Bryggeriet and only to export Pripps' beers to Denmark through Carlsberg. As a part of the deal, Carlsberg should acquire a small minority of the shares in Ceres Bryggeriet.[34] In 1976, Pripps' began to produce Carlsberg and Tuborg on license. At the same time, it was announced, that Ceres Bryggeriet of Aarhus, Thor's Bryggerierne of Randers, and Urban Bryggeriet in Aalborg would merge to form Jyske Bryggerier (Jutland Breweries) – with Carlsberg as app. 40 % owner, and with Knud Erik Borup as Carlsberg's representative.[35] In 1989, Faxe Bryggeri and Jyske Bryggerier merger to become Bryggerierne Faxe Jyske – from 1992 Bryggerigruppen (Brewery Group Denmark), and Carlsberg possessed indirectly 30 % of the new group. However, in 1998 Carlsberg was forced by the Danish Competition Agency to sell its shares in Bryggerigruppen.[36]

In 1992, the major Swedish car producer and at the time conglomerate, Volvo AB, took over Procordia, and Pripps' became part of Volvo's Food and Beverage Business Area – later named Fortos.[37] Three years later, in 1995, the Norwegian conglomerate Orkla and Volvo's Fortos mergered their beverage activities – mainly the Norwegian brewery Ringnes and Pripps' – in Pripps-Ringnes, while Orkla at the same time takes over Volvo's food activities. The merger was approved by the EEC Commission on September

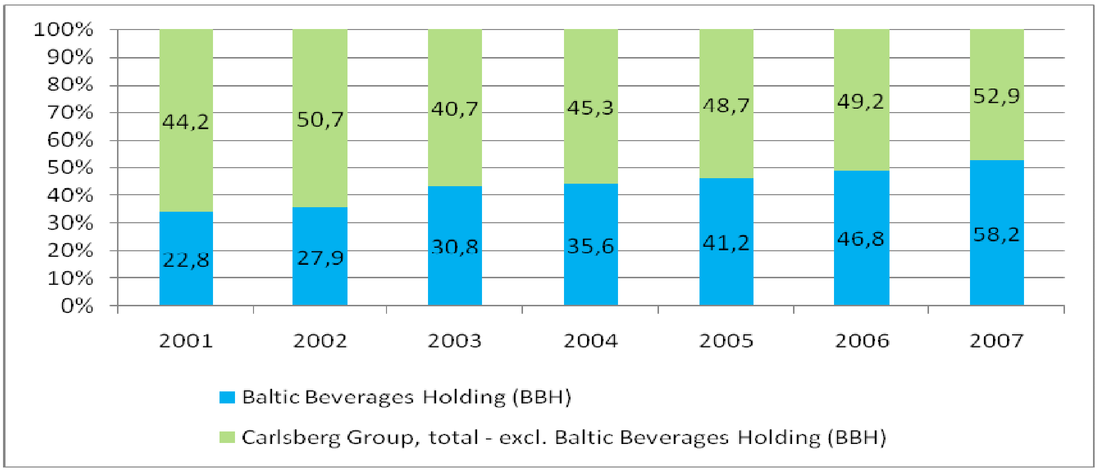
20, 1995 and it gave Pripps-Ringnes market leadings positions in both Norway and Sweden within beer, soft drink and mineral water. However neither the Norwegian nor the Swedish markets are growing. In 1997, Volvo sells its 50 % shareholding in Pripps-Ringnes to Orkla. Four years later – in 2001, Orkla merger Pripps-Ringnes with Carlsberg's brewery activities in Carlsberg Breweries – 60 % owned by Carlsberg and 40 % owned by Orkla.[38]

The new company had right from the beginning a focus on the old Soviet Union republics since these activities (on a 50 % basis) consisted of the app. 20.5 % of the total sales volume in million hectoliters. These East European activities were conducted in a 50/50 joint venture – called Baltic Beverages Holding or BBH – with the brewery Hartwall of Finland, which itself was taken over by Scottish & Newcastle of United Kingdom. Carlsberg thus entered Eastern Europe through acquisition rather than through a deliberate strategy.

When we look back to the *early 1990'ties* and Poul Johan Svanholm's "Vision 2000" for Carlsberg, it is interesting to notice, that Carlsberg choose not to focus on the newly opened markets in the Baltic countries, Eastern Europe or the former Soviet Union. It is somehow remarkable, since Denmark – and Carlsberg – through the cold war have had close relations to these countries – Carlsberg through export sales – and that Denmark continue to have good relations to many of these countries by supporting them when they reestablish to market economies in the early 1990'ties. From 2000 to 2007 the importance of BBH (still on a 50 % basis) has increased rapidly and BBH in 2007 consisted of app. 35.5 % of Carlsberg's entire sales volume in million hectoliters, which is an increase in share from 2001 on 15 %.[39]

For this reason, Carlsberg – together with Heineken – on April 29, 2008, acquired Scottish & Newcastle, which they then split-up between them. By splitting Scottish & Newcastle up, Carlsberg and Heineken avoided much antitrust legislation, since Carlsberg and Heineken did not add significant activities from Scottish & Newcastle to countries where they already themselves were number one or number two. However, for Carlsberg it was of most importance to secure the full (100 %) ownership of the entire BBH. The acquisition of Scottish & Newcastle did not change the world rank of the global breweries, and Heineken and Carlsberg remained being respectively the fourth largest and fifth largest brewery groups in the world.

Table 9 **Baltic Beverages Holding's (100 %) and Carlsberg's (100 % – excl. Baltic Beverage Holding) share of the combined beer volume based on annual reports.**



Sources: *Carlsberg's annual reports, 2001-2007*

Conclusion

The foremost argument Carlsberg's CEO A.W. Nielsen gave for a merger between Carlsberg and Tuborg in 1970 was to entrance the UK with its own brewery – and not "just" a licensing agreement with one of the national breweries. A.W. Nielsen's argument was that if Carlsberg wanted to fight with the large brewery groups, Carlsberg needed its own brewery on the huge UK market. A.W. Nielsen at the same time saw the opportunities for Carlsberg as a larger producer to get some solid market shares from the ale and stout producing competitors if Carlsberg was able to supply the UK market with enough lager beer.

From being two breweries with a combined international volume share on app. 25 % in 1966, Carlsberg made some remarkable sales volume points within the following 10-11 years: Foreign brewed volume exceed export sales volume in 1974, international brewed volume exceed domestic volume in 1976, that foreign brewed volume exceed domestic sales volume in 1977, and that the international volume also exceed Denmark volume in 1977. So for these reasons we conclude this regarding Carlsberg’s total sales volume:

- Firstly, Carlsberg was for the first time more international oriented than domestic oriented, when we look at the sales volume’s destination, by year 1976.
- Secondly, Carlsberg was for the first time more international oriented than domestic oriented, when we look at the sales volume’s origin, by year 1977.

In the decades following 1970 the most important single market for Carlsberg was United Kingdom, where Carlsberg managed to establish an additional national brewery to the existing six English and Scottish breweries and the Irish brewery group Guinness. 15 years after the merger, United Kingdom was a larger market for Carlsberg than Denmark. In that respect A.W. Nielsen vision for a strong development in the United Kingdom after 1970 proved to be successful. 1970 seemed to have been the right moment for Carlsberg to leave the restrictive 1903 agreement. Carlsberg’s largest challenge seems not to have been the probably delayed access to Greenfield investment in Great Britain and in other important markets. The real challenge proved to be the many license agreements and the lack of control on the partnerships. The idea of global “presence” in the 1980’ties and early 1990’ties was a disastrous route. In the 1990’ties and early 2000 Carlsberg left this route through alliances and acquisitions. It is illustrative that Carlsberg in this period made the three largest Danish acquisitions at the time:

- The first time was when Carlsberg and Allied-Lyons created Carlsberg-Tetley in 1992 (if Carlsberg’s acquisition of Allied-Domecq’s shares in 1997 is included).
- The second time was when Carlsberg and Orkla created Carlsberg Breweries in 2001 (if Carlsberg’s acquisition of Orkla’s shares in 2004 is included).

- The third time was when Carlsberg and Heineken acquired and split Scottish & Newcastle in 2008.

These acquisitions provided Carlsberg with a focus on high market shares in a limited number of countries: firstly on the crucial British market, then market leadership on the four Nordic markets and finally today Carlsberg is the solely owner of BBH market leader in Europe second largest market Russia. The 1903 agreement was a main character in the “Danish chapter” of Carlsberg’s story. That story ended with the merger in 1970 when the international chapter of Carlsberg’s story began. This international chapter began late but probably not too late.

Appendix

Carlsberg’s primary brewery markets as of July 1, 2008

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Notes

[1] Hjejle (1982), Glamann (1997)
[2] Fraenkel (1897), p. 51.
[3] Boje (2004), p. 29.
[4] Glamann (1976), p. 50.
[5] Dahlberg, Iversen, Linden (1999), p. 41–42.
[6] Glamann (1976), p. 53.
[7] Nüchel Thomsen (1973), 61.
[8] Hjejle (1982), p. 51.
[9] Ibid., p. 52–53.
[10] Glamann (1976), p. 86.
[11] Glamann (1976), p. 87, in the single year 1918/1919 Tuborg also paid money to Carlsberg.
[12] Glamann (1976), p. 89.
[13] Glamann (1976), p. 97.
[14] Hjejle (1982), p. 87.
[15] Hjejle (1982), p. 87–88.
[16] Trustkommissionen (1960).
[17] Hjejle (1982), p. 81.
[18] Hjejle (1982), p. 81, Citation of the letter from the partners to the Danish authorities, November 6, 1956
[19] Trustkommissionen, (1960), p. 91–92:
[20] Hjejle (1982), p. 87, Hjejle thought that the bomb would explode if Tuborg provided practically no profit to the partnership and the entire profit came from Carlsberg.
[21] Glamann (1997), p. 24.
[22] Hjejle (1982), p. 109.
[23] Carlsberg Annual Report 1969/70, p. 9, and interview with Knud Erik Borup, General Manager and later Vice President of Carlsberg International, 1969-73.
[24] Carlsberg Annual Report 1974/75, p.7.
[25] Carlsberg Annual Report 1969/70, p. 9, And interview with Peter Sadolin, General Manager of Tuborg International, 1968-71. The For Carlsberg the UK market change rapidly, when Grand Metropolitan first buys Truman, Hanbury, Buxton & Co. – renamed Truman in 1973 – in 1971 and then Watney Mann & Co. – renamed Watney Mann in 1973 – in 1972. Two years later – in 1974, Grand Metropolitan merger Truman and Watney Mann to become Watney Mann & Truman – renamed Grand Metropolitan Brewing in 1975. The change in the ownerships leads Carlsberg and Grand Metropolitan to make a new joint agreement for the Carlsberg and Tuborg brands on the UK market. Carlsberg takes over Watney Mann’s original 49 % shareholding in Carlsberg UK, where after Carlsberg UK is owned 100 % by Carlsberg. Carlsberg’s and Truman’s licensing agreement regarding Tuborg is eliminated, and instead Carlsberg makes a licensing agreement with Bass Charrington regarding Tuborg on the UK market. The reason for this is that Carlsberg wants the Carlsberg and Tuborg brands to compete on the UK market. Through the new arrangement Carlsberg beer will be sold at 8.000 Grand Metropolitan places and Tuborg beer will be sold at 10.000 Bass Charrington places.
[26] Allied mergered with J. Lyons to become Allied-Lyons. Bass and Charrington mergered and became Bass Charrington, Truman, Hanbury, Buxton & Co. was taken over by Grand Metropolitan in 1971, and so was Watney Mann & Co. in 1972, where after Grand Metropolitan mergered Truman, Hanbury, Buxton & Co. with Watney Mann & Co. to become Grand Metropolitan Brewing.
[27] The Supply of Beer: a report on the supply of beer for retail sale in the United Kingdom, Cm 651, 21/03/1989
[28] Allied-Lyons PLC and Carlsberg A/S: a report on the proposed joint venture, The UK Mergers & Monopolies Commission, Cm 2029, 28/07/1992
[29] On August 25, 1996, Allied Domecq – as Allied-Lyons now is named – B ass and

Carlsberg announce their plan about the merger of Bass Brewers and Carlsberg-Tetley. On September 9, 1996, the UK Minister of Commerce & Industry, Ian Lang, says he cannot accept the merger plan, and on June 27, 1997, his successor as UK Minister of Commerce & Industry, Margaret Beckett, declines to accept the merger, and for this reason she does not send it on to the to the Monopolies & Merger Commission.[29] I connection with merger plan, Allied Domecq and Carlsberg have made a Plan B saying, that if the merger gets declined, that Allied should then sell its 50 % ownership as well as its beer brands to Carlsberg for 110 million GBP.

[30] Interviews in January 2008 with Knud Erik Borup, General Manager and later Vice President of Carlsberg International in 1967-1974

[31] Carlsberg have many approaches to other brewery groups. Among these are Canadian Breweries of Canada, Forma Springs of Canada, Truman Hanbury Buxton of England, Watney Mann of England – Interviews in January 2008 with Knud Erik Borup, General Manager and later Vice President of Carlsberg International in 1967-1974, and Peter Asgeir MacGregor Sadolin, General Manager of Tuborg International in 1968-1971.

[32] Carlsberg Annual Report 1996/97, p. 18., and Scottish & Newcastle Annual Report 2001/02

[33] Sandberg's 2008 EBHA Paper

[34] Glamann (1997)

[35] Knud Erik Borup, Senior Vice President of Carlsberg-Tuborg International Division, 1974-1975, becomes a Member of Board of Directors of Jyske Bryggerier (Jutland Breweries) by the merger in 1976, and is elected Chairman in 1980. When Faxe Bryggeri and Jyske Bryggerier merge in 1989, Knud Erik Borup becomes Chairman of the Board of Directors of Faxe-Jyske Bryggerierne Faxe-Jyske – from 1992 Bryggerigruppen (Brewery Group Denmark). Knud Erik Borup resigns in 2003, and in 2004, Bryggerigruppen change its name to Royal Unibrew. Interviews January 2008 with Knud Erik Borup.

[36] Bryggerigruppen Prospect 1998

[37] Volvo Annual Reports 1991 and 1992

[38] The first majority investment BBH made was buying the oldest Estonian brewery company Saku, which was established in 1820, in 1991. This investment was followed up by four similar majority investments; the Latvian brewery company Aldaris in 1992 (founded 1865), the Russian St. Petersburg based brewery company Baltika in 1993 (founded 1990), and the Lithuanian brewery company Kalnapilis in 1994 (founded 1902). Two years later – in 1996, BBH makes three 50 % acquisitions in the Russian brewery companies Taopin (founded 1974), which is based northeast of Moscow, and Yarpivo (founded 1995), which is based southeast of Moscow, and in the southeast Ukrainian brewery company Slavutich.Orkla Annual Report 1996 (Norwegian), side 12

[39] However, had BBH been a 100 % subsidiary of Carlsberg Breweries – instead of a 50/50 joint venture with Scottish & Newcastle. Carlsberg Breweries total sales volume in million hectoliters had been very different. Then BBH would have had a share on app. 34.0 % in 2001, which in 2007 would have increased to app. 52.4 %. BBH would the same year (2007) have passed the remaining sales volume of Carlsberg around the world.