

# Heading for duopoly?

TWO LARGE SUPPLIERS NOW DOMINATE THE GLOBAL YEAST MARKET AFTER DSM SOLD ITS YEAST BUSINESS



**+** The global yeast market is an unknown field, even for acknowledged experts. Currently, nobody can quantify reliably how much yeast is produced in countries such as China, India and Russia and how much of this is used in the baking industry. Yeast is a product that does not necessarily call for a large industrial production. Estimates of the baker's yeast market, based on the amounts of bread consumed, is also questionable due to the varying amounts of yeast quantities needed which is dependent on how much sourdough or preferment has been used. Despite that, the bread market is no longer at the top of the scale. In Germany, for example, more yeast is used in the production of small baked goods and fine bakery wares than for bread. In Africa and other sun-blessed regions of this world, the use of fresh yeast is at a minimum due to the climate. Dry yeast is predominately preferred in these areas.

With the consideration that a large part of the world is not statistically covered, the worldwide consumption of fresh baker's yeast – pressed

into blocks or delivered as liquid yeast – is estimated at a yield of approximately 2m tons/year. The largest producer of baker's yeast is the French family-owned company Lesaffre, based in Marcq-en-Baroeul, with an annual turnover of about 1bn Euros. The company produces yeast as well as improvers and mixes for the baking industry and also serves the health and nutrition market with yeast extracts and functional ingredients. Lesaffre operates more than 30 yeast production facilities all over the world in 26 countries. Its market share is estimated to be over 30%. In the past 10 years, Lesaffre has predominately gained market significance in Central and Eastern European countries. In Poland, Croatia, the Czech Republic and Serbia, the group is considered to be market leader with a market share of more than 50% in each country. The French company is also successful in countries located further east. Lesaffre now has its first Russia yeast production plant, in Kourga. Lesaffre's latest acquisition earlier this year is the British yeast division of the private equity ►



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The Netherlands  
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www.capwaypan.nl

## Exploding costs

The European yeast producers suffer from rising prices for molasses. Due to the reduction in subsidies and the imposition of quotas on sugar producers, the industry is forced to calculate the prices according to market economy principles. This results in a price increase for molasses which used to be a by-product from the sugar production and sold rather cheap. Now molasses is no longer used by yeast producers alone as nutrient base for yeast cells; the competition from the feedstuff and biofuel sectors for molasses is also on. According to the Association of the German Yeast Industry, the prices for molasses have increased in the last year by almost 50%. +++



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group GBI (which had taken over this business from Dutch ingredients supplier DSM). This raised concerns within the European Commission and resulted in certain conditions. Lesaffre must sell the yeast production plant in Felixtowe, UK, in an attempt to prevent the existence of only two suppliers (Lesaffre and ABF). This duopoly would make it impossible for any other yeast supplier to enter the market. Up until now this condition has not been fulfilled; the company has not been sold. The yeast trade and the improver business in the UK still remain with Lesaffre.

The abandonment of the yeast business by the GBI group in favor of the ABF group (Associated British Foods) was also the subject of an examination by the EU's antitrust authority. In October 2007, Associated British Foods entered into a share purchase agreement with GBI Holding BV in relation to the sale of GBI Holding's yeast operations in Belgium, The Netherlands, France, Spain, Portugal and Italy as well as its interests in a joint venture operating in Germany (50 % of the Uniferm yeast and bakery ingredients manufacturer) and a minority shareholding in Morocco. Up until then, ABF, with its yeast division AB Mauri, was present on the worldwide yeast market, mainly in North and South America, Australia and Asia. The initial market investigations by the Commission determined potential anti-competitive effects on the market for pressed yeast in South-West-Europe (Portugal, Spain, France) as with this action the number of effectively operating suppliers, in particular in Spain and

Portugal, would be reduced from three to two. Therefore, the EU Commission requested the fulfillment of certain conditions. To remedy the Commission's concerns, ABF offered to divest the GBI businesses in Spain and Portugal, whilst ensuring that these businesses would be linked to a sufficient production capacity. In light of these commitments, the Commission concluded that the proposed transaction would not significantly impede effective competition in the European Economic Area (EEA) or any substantial part of it. When including the sales of Uniferm in Germany in the ABF market share – under the consideration that Uniferm is a market leader in Germany with a one third market share – the global market share of the British company will probably approach the 30% mark, in particular because the German company generates remarkable sales in Central Europe, mainly in Poland.

Lesaffre and ABF, as market participants of almost the same size, are followed by quite some distance by Canada-based Lallemand Inc. Lallemand Inc. is a privately held Canadian company specializing in the development, production, and marketing of yeasts and bacteria. The company has four major divisions: North American Baker's Yeast and Ingredients (based in Chicago, USA), European Yeast (based in Vienna, Austria), Specialty (based in Toulouse, France) and Lallemand South Africa (based in Johannesburg, RSA). The North American Baker's Yeast and Ingredients division operates in Canada, the U.S and Mexico. It produces fresh,

cream and instant baker's yeast along with dough conditioners and baking powders. The European Baker's Yeast Division produces specialty yeasts, yeast extracts and derivatives and also produces and markets baker's yeast from its production, drying and packaging plants in Germany, Austria, Estonia, Poland, Finland and Denmark, and its distribution centers in Denmark, Lithuania and Poland. Since 2000, Lallemand has increasingly acquired companies in Europe beyond these companies that already belonged to the group such as Salutaguse Pärmitehas in Estonia and Harmer in Austria. For example, the group has taken over Scandi-Link and De Danske Gærfabrikker AS in Denmark, Suomen Hiiva Oy in Finland, Hagold, Lindemeyer and Wieninger in Germany, Herold Hefe in Slovakia and three plants in Poland (Josefow, Lublin and Cracow). Altogether, Lallemand may achieve a market share of about 10% worldwide. The remaining 25-30% is divided amongst a number of small and medium-sized suppliers who operate predominately on a national or regional level.

Today, on the European market, such small and medium-sized companies have a market share of maximal 20%. Here, Lesaffre dominates the business with presumably more than 40%, closely followed by ABF with over 35%. Despite the numerous acquisitions, Lallemand's market share in Europe is less than 10%. Nevertheless, the yeast market is still in transition. Reasons for this include the fact that it is not yet



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clear who may be allowed by the EU Commission to compete with the key players in the UK, Spain and Portugal and because there are occasionally new suppliers appearing on the market. One example includes Belgian Puratos which supplies bakery improvers and has been active on the market for specialty yeasts for quite some time. JSC Enzyme of Lviv, Ukraine, another yeast supplier and market leader in its own country has also been operating in Russia since the beginning of this century. This company also exports into the Baltic countries and has recently discovered the bakery trade in Western Europe as a potential sales territory. +++



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