



House of Commons

Business, Innovation and Skills  
Committee

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# Is Kraft working for Cadbury?

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**Sixth Report of Session 2010–12**

*Report, together with formal minutes, oral and  
written evidence*

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## Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/parliament.uk/bis](http://www.parliament.uk/parliament.uk/bis). A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are James Davies (Clerk), Charlotte Pochin (Second Clerk), Louise Whitley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Frances Allingham (Senior Committee Assistant), Jennifer Kelly (Committee Assistant).

### Contacts

All correspondence should be addressed to the Clerk of the Business, Innovation and Skills Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is [biscom@parliament.uk](mailto:biscom@parliament.uk).

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## Summary

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Kraft's acquisition of Cadbury some 14 months ago prompted an inquiry by our predecessor committee during which Kraft gave a number of important undertakings in relation to preserving Cadbury brands, manufacturing, jobs and other matters. Most notably, Kraft undertook that there would be no further compulsory redundancies among manufacturing employees and no additional manufacturing facilities closures, in each case for at least two years. The particular circumstances of the acquisition—notably the reversal of position on whether Kraft could keep open Cadbury's Somerdale factory—ultimately gave rise to a review of the Takeover Code and a statement of public criticism of Kraft by the Takeover Panel in relation to Kraft's intentions for Somerdale.

At the mid-term of Kraft's two-year commitments on jobs and manufacturing, which apply until March 2012, we invited Kraft to give evidence on its compliance with those and the other undertakings. In advance of that session, Kraft provided a progress report. While encouraging in many aspects, Kraft's progress report steered somewhat away from certain sensitive issues such as headquarters relocations and pay and conditions.

In a repeat of our predecessors' experience, Irene Rosenfeld, the Chief Executive Officer and Chairman of Kraft, refused to give evidence despite repeated requests from us that she should appear. Neither that refusal to attend, nor the manner of it, reflected well on Kraft, nor did Kraft's persistence in failing to acknowledge the seriousness of the Takeover Panel criticism—criticism which by its gravity would alone have merited Ms Rosenfeld's appearance before us, as a committee of public scrutiny. That sorry episode overshadowed what could have been a positive discussion on the future of Cadbury under Kraft's ownership. In its correspondence with the Committee Kraft in our view steered close to a contempt of the House. We trust that that will not be repeated.

More positively, it would appear from the evidence given to us that Kraft is currently honouring the undertakings given to our predecessor committee and is committed to investment in Cadbury. We were especially encouraged by continued investment in Bournville and recruitment into research. Given the particular responsibility Kraft has to Cadbury employees following the Somerdale episode, we trust that this approach to investment will continue. It would also assist considerably in rehabilitating Kraft's reputation if the savings planned from integration synergies were used to support further investment for growth and accommodate the results of that growth in terms of recruitment needs.

We remain concerned on two issues. First, while Kraft's commitment to manage the Cadbury brands for the UK may have been observed insofar as the UK retains a significant marketing function, it would seem that the strategic decisions on brands are being made in Kraft's European headquarters in Zurich. We hope Kraft will refrain from further transfer of marketing responsibility to Zurich given its oft-stated public commitment to Cadbury's brand heritage.

Our other concern covers the programme of harmonisation of pay and conditions which Kraft chose to announce to us in oral evidence, apparently in advance of any union involvement. We trust that Kraft will fully engage with the union, and that the harmonisation programme will fully respect Kraft's non-time limited undertaking to respect Cadbury's existing employee terms and conditions.

A positive outcome of Kraft's takeover of Cadbury was that it instigated a review of the Takeover Code by the Takeover Panel and our predecessor Committee's Report played a significant role in highlighting the need for such a review. The Government is also conducting a review of takeovers and corporate responsibility. We trust that it will use this Report and our predecessor Committee's Report as a valuable case study when it comes to formulating policy in this area.

# 1 Introduction

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## Background

1. In February 2010, Kraft acquired Cadbury for a purchase price of £11.5 billion. The acquisition was controversial for two reasons. Firstly, a long-established and highly respected British company was to be the subject of a hostile takeover by an American corporation which had previously been criticised for its takeover of another UK company, Terry's of York. The second reason was that, in what appeared to be a re-run of the Terry's story on a considerably shorter timescale, Kraft initially indicated that it would reverse Cadbury's decision to close the historic Somerdale factory, but then a week after the takeover reversed that decision.

2. In the early part of 2010, our predecessor Committee conducted an inquiry into the circumstances of the takeover. That Committee's Report considered the decision to close the Somerdale plant along with Kraft's overall plans with regard to Cadbury jobs, employment conditions, factories, brands, strategic growth, research and social responsibility. In the course of the inquiry Kraft gave a number of undertakings, including most notably a commitment that there would be no further compulsory redundancies among manufacturing employees and no additional manufacturing facilities closures, in each case for at least two years.<sup>1</sup> The other undertakings were broadly as follows:

- To preserve the identity of the Cadbury brand and the company,<sup>2</sup> and to manage the brands, the assets and the people out of the UK;<sup>3</sup>
- To continue to base Cadbury marketing and sales in the UK;<sup>4</sup>
- To continue to produce, in the UK, Cadbury's Dairy Milk<sup>5</sup> and Cadbury's other products in UK production at takeover;<sup>6</sup>
- To maintain existing staff terms and conditions;<sup>7</sup>
- That existing pension arrangements would be honoured;<sup>8</sup>
- To engage in genuine union consultation;<sup>9</sup>
- That R&D facilities would be maintained;<sup>10</sup>

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<sup>1</sup> Q 297, 16 March 2010

<sup>2</sup> Qq 174 and 176, *ibid.*

<sup>3</sup> Q 175, *ibid.*

<sup>4</sup> Q 215, *ibid.*

<sup>5</sup> Qq 177 and 179, *ibid.*

<sup>6</sup> Q 182, *ibid.* But this was qualified by the proviso that there were no plans to move production as of March 2010.

<sup>7</sup> The bid materials said: "[W]e confirm that the existing contractual employment rights, including pension rights, of all employees of Cadbury would be fully safeguarded." See also Q 321, *ibid.*

<sup>8</sup> Q 322, *ibid.*

<sup>9</sup> Qq 305 and 324, *ibid.*

- To move Green & Black's to Fair Trade by the end of 2011;<sup>11</sup>
- To continue Cadbury Foundation funding;<sup>12</sup>
- To continue Cadbury's community and charitable activities;<sup>13</sup>
- To stand by Cadbury's London Olympics sponsorship.<sup>14</sup>

3. The previous Committee published its report on 6 April 2010.<sup>15</sup> Among the principal conclusions and recommendations were:

- Kraft's Chief Executive Officer, Irene Rosenfeld, should have appeared before the Committee, not least because the statements regarding Somerdale's future were made and announced by her;
- Kraft acted irresponsibly and unwisely in making its statement that it believed it could keep Somerdale open and the statement damaged Kraft's reputation in the United Kingdom and soured its relationship with Cadbury employees such that it would have to invest significant time and effort in restoring both;
- notwithstanding the undertakings given, clearer and/or more extensive commitments in several areas such as in relation to retaining specific plants and maintaining numbers of R&D staff would have been welcome;
- backtracking from the undertakings would amount to a serious breach of trust;
- there were deep concerns over the possibility of the Cadbury takeover being motivated by a desire among institutional investors for short-term profits;
- a review of takeover regulations would be welcome.

4. The manner in which Kraft made and subsequently retracted its pronouncements on the Somerdale plant was the subject of an investigation by the Takeover Panel. The Panel published its findings in May 2010, and censured Kraft for its conduct in relation to the planned Somerdale closure. The Takeover Panel also announced that it would consult on proposals to reform the Takeover Code in the light of various objections to the way takeovers in the UK have developed.

5. In December 2010, we decided to review the extent to which Kraft's undertakings were being complied with one year after the takeover and to evaluate Kraft's strategic plans for the Cadbury business now that integration of the two organisations was fully under way.

6. Despite our wish to interview Irene Rosenfeld, the Kraft Chairman and Chief Executive Officer (the circumstances of which are explained later in this report), we had to content

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<sup>10</sup> Q 298, *ibid*. This applied to Reading, and was qualified by a proviso that the commitment was not in perpetuity. There was a statement of intention to invest in Bournville at Q 193.

<sup>11</sup> Q 327, *ibid*.

<sup>12</sup> Q 334, *ibid*.

<sup>13</sup> Qq 338 and 339, *ibid*.

<sup>14</sup> Qq 186 and 187, *ibid*.

<sup>15</sup> Mergers, acquisitions and takeovers: the takeover of Cadbury by Kraft, Ninth Report of Session 2009–2010



ourselves with hearing from three Kraft executives, albeit in senior roles: Marc Firestone, Executive Vice President, Corporate & Legal Affairs, Trevor Bond, President of Kraft Foods Europe, and Nick Bunker, President of Kraft Foods UK & Ireland. They gave testimony in an oral evidence session on 15 March 2011. Prior to that, Kraft provided a progress report which has been published by way of written evidence on the Committee website. We intend to consider the broader position on takeovers later in the year, when the Government has published further plans for reform and the Takeover Panel has received the results of its consultation on changes to the Code.

## 2 Kraft representation before the Committee

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7. When our predecessor Committee held its inquiry into the Cadbury takeover, it wanted to hear evidence from Irene Rosenfeld, the Chairman and CEO of Kraft. However, Ms Rosenfeld declined to appear before that Committee. In its Report the Committee regretted that decision,

“not least because the statements regarding Somerdale’s future [...] were made and announced by her. Irene Rosenfeld’s attendance would have given an appropriate signal of Kraft’s commitment to Cadbury in the United Kingdom and provided the necessary authority in respect of the specific assurances offered to us during our evidence session.”<sup>16</sup>

8. At the start of our inquiry we again invited Irene Rosenfeld to appear before the Committee.<sup>17</sup> Our initial invitation made it clear that such an appearance would be arranged to accommodate her many work commitments. The response, from Marc Firestone, Executive Vice President, Corporate and Legal Affairs for Kraft, stated that Kraft would be:

pleased to provide an update to the Business, Innovation and Skills Committee on progress since my colleagues and I first appeared before the Committee in March 2010

and that

Ms Rosenfeld will ensure that the most appropriate people from Kraft Foods are available to supply the information you have requested.<sup>18</sup>

9. He further said that he would again lead the team appearing before the Committee, arguing that such a team would combine “the seniority and knowledge needed to answer questions authoritatively and to the level of detail that will be most helpful to the Committee’s deliberations.” The response did not, however, address the fact that the invitation had been extended to Ms Rosenfeld. Mr Firestone would have been welcome to give evidence alongside Ms Rosenfeld, as together they would have been in a position to provide the maximum level of authority without compromising on the depth of available information.

10. In the Committee’s response, we expressed our disappointment at the continued refusal of Kraft’s CEO to appear. The reply, this time from Ms Rosenfeld herself, said that she shared a “desire to reinforce Kraft’s commitment to Cadbury and its heritage with the Committee.” However, she again declined to appear, saying that the appropriate

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<sup>16</sup> Conclusion 1

<sup>17</sup> The full correspondence has been published on the Committee website at: [www.publications.parliament.uk/pa/cm201011/cmselect/cmbis/writev/871/contents.htm](http://www.publications.parliament.uk/pa/cm201011/cmselect/cmbis/writev/871/contents.htm)

<sup>18</sup> Ev 25

representatives were those “closest to the market and to [Kraft’s] business plans” and that Mr Firestone and Mr Bond would provide continuity from the previous session.<sup>19</sup>

11. Our final invitation offered Ms Rosenfeld the option of an evidence session by video-link. The reply from Kraft failed to address the offer of a video-link appearance, and expressed disappointment at the further request, stating that “the repeated demands for Ms Rosenfeld to appear in person are regrettable.” It continued:

Based on the experience of last year’s hearing and recent comments by some Committee members, there seems to be a desire to have a ‘star witness’ towards whom ill-founded allegations and insults can be made, with little or no attempt to discuss the facts and look rationally into the evidence. Indeed, a review of the transcript from last year’s hearing shows that it went far beyond spirited debate to a remarkable level of rancor. (For example, please see Questions 189 and 199.)<sup>20</sup>

12. This was a total misrepresentation of the Committee’s reasons for inviting Ms Rosenfeld, which were based on her capacity as Chairman and Chief Executive Officer to speak with maximum authority for the company. It also omitted to address our offer of evidence by video link. The description of the Committee’s “motive” for inviting Ms Rosenfeld in our view fell short of an explicit contempt of the House, but not by much. The manner and tone of the letter was unacceptable and showed a distinct lack of judgement by Mr Firestone. Considering the poor handling of the takeover of Cadbury by Kraft, we believe that our predecessor Committee, far from descending into rancour, showed great restraint in its examination of Kraft executives.

13. When Kraft’s witnesses came before the Committee, they again suggested that our invitation to Ms Rosenfeld was based on a desire to personalise the issues.<sup>21</sup> This simply was not the case. Our reason for wanting her to appear before us was based entirely on the authority which comes with her position as Chairman and CEO of the company. As Mr Firestone conceded, the authority to close factories—including those in the UK—rested not with him but primarily with Ms Rosenfeld.<sup>22</sup>

14. In a BBC news interview after her visit to Bournville in October 2010, reported in the *Daily Telegraph*, Ms Rosenfeld was asked whether she was unable to make more of a commitment on manufacturing beyond the two-year commitment offered in March 2010, to which she reportedly said, “That’s correct.”<sup>23</sup> According to the *Daily Telegraph* report, “she added that it was hard to say whether, overall, the merger of the two companies would result in a net loss or a net gain in jobs. ‘It will vary from area to area. I think most importantly though, we do expect that the combination will enable the combined company to deliver growth on both the top line and the bottom line that is well in excess of the growth of any of our peers.’”

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<sup>19</sup> Ev 26

<sup>20</sup> Ev 26

<sup>21</sup> See in particular Qq 39–40

<sup>22</sup> Q 14

<sup>23</sup> *Daily Telegraph*, 9 October 2010, ‘Kraft chief refuses to rule out further cuts’

15. This is precisely the type of comment on which we would have wanted to give Ms Rosenfeld the opportunity to comment directly to us.

**16. The areas that principally concern this Committee in relation to Cadbury are Kraft's company strategy and its intentions with regard to UK jobs, and it is Irene Rosenfeld, as its Chief Executive Officer and Chairman, in whom Kraft has invested the principal authority to make announcements on such matters. For that reason, we believe that she should have made herself available as her company's principal witness. The manner of her repeated refusal to appear before a committee of Parliament demonstrates a regrettably dismissive attitude to a National Parliament—an attitude which we trust Kraft will rapidly take action to shed.**

17. It was deeply frustrating that so much time was spent on the issue of Ms Rosenfeld's non-attendance which ultimately overshadowed some of the positive developments in Cadbury. That situation could have been avoided had Kraft taken a more positive role in its engagement with the Committee. If Kraft's decision was driven by advice on public relations, that decision backfired.

## 3 The Takeover Panel decision

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### The Panel's decision

18. In its initial takeover proposal of September 2009, Kraft said:

our current plans contemplate that the UK would be a net beneficiary in terms of jobs. For example, we believe we would be in a position to continue to operate the Somerdale facility, which is currently planned to be closed and to invest in Bourneville, thereby preserving UK manufacturing jobs.<sup>24</sup>

The same statement was substantively repeated on three further occasions after September 2009: in November 2009 (in Kraft's firm offer announcement), in December 2009 (in the offer document), and in January 2010 (by reference, in a revised offer document).

19. However, a week after the takeover, on 9 February 2010, Kraft announced that it would not after all be keeping Cadbury's Somerdale plant open.<sup>25</sup> Kraft said that Cadbury's plans to shut the factory as it transferred production to Poland were "far advanced" and that therefore it was "unrealistic" to reverse them. It was anticipated that the plant would be shut in 2011. In the event, it closed in January 2011.

20. Following our predecessor Committee's report, the Takeover Panel investigated whether, in the light of its subsequent decision to close the factory, Kraft's initial statements in relation to Somerdale breached the Takeover Code. Rules 19.1 and 19.3, state that:

Each document or advertisement published, or statement made, during the course of an offer must be prepared with the highest standards of care and accuracy and the information given must be adequately and fairly presented. This applies whether it is published by the party directly or by an adviser on its behalf.<sup>26</sup>

Parties to an offer or potential offer and their advisers must take care not to make statements which, while not factually inaccurate, may be misleading or may create uncertainty. In particular, an offeror must not make a statement to the effect that it may improve its offer, or that it may make a change to the structure, conditionality or the nonfinancial terms of its offer, without committing itself to doing so and specifying the improvement or change.<sup>27</sup>

21. During the Panel's investigation, Kraft argued that it had believed it would be able to use the Polish plant's capacity for production of its own brands, thereby allowing Somerdale to continue in operation for production of Cadbury brands. However, as the Panel's decision stated: "[...] given that Kraft did not know the detail of Cadbury's phased closure of Somerdale and the transfer of production from Somerdale to its new facilities, Kraft was not willing, nor was it in a position, to give any firm commitment in this regard,

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<sup>24</sup> Proposal document dated 7 September 2009

<sup>25</sup> See company press release accessible via [http://phx.corporate-ir.net/phoenix.zhtml?c=129070&p=irol-sec&secCat01.15\\_rs=151&secCat01.15\\_rc=10](http://phx.corporate-ir.net/phoenix.zhtml?c=129070&p=irol-sec&secCat01.15_rs=151&secCat01.15_rc=10)

<sup>26</sup> Rule 19.1

<sup>27</sup> Rule 19.3

nor were its plans developed beyond a superficial level. As a result, Kraft chose to make the statement as one of belief.”<sup>28</sup>

22. The decision continued:

The Executive considers that, where a party to an offer makes a statement of belief of the kind made by Kraft, Rule 19.1 requires not only that the party concerned honestly and genuinely holds that belief (a subjective test) but also that it has a reasonable basis for so holding that belief (an objective test).

In this case, in view of the statements’ prominence and the significance attached to them by Kraft and Cadbury’s employees, and given that they repeatedly raised the prospect of Kraft reversing a high profile and contentious decision taken by Cadbury some two years previously, the Executive considers that particular care was required in relation to the statements regarding the Somerdale facility.<sup>29</sup>

23. The first of these paragraphs clearly describes a two–part test for compliance: that there is an honest and genuine belief (the subjective test) and that the belief has a reasonable basis (the objective test).

24. Applying this to Kraft’s statements on Somerdale, the Takeover Panel’s conclusion was as follows:<sup>30</sup>

The Executive has concluded that the statements made by Kraft regarding the Somerdale facility were not prepared to the standards required by Rule 19.1.

The Executive accepts that Kraft held an honest and genuine belief that it could keep Somerdale operational. Further, *in Kraft’s view*,<sup>31</sup> the publicly available information regarding the timing of the Somerdale closure, together with its own expert operational knowledge in relation to factory closure programmes in the industry, provided it with a reasonable basis for holding that belief.

However, the Executive considers that Kraft should not have made the statements in the form in which it did in circumstances where it did not know the details of Cadbury’s phased closure of Somerdale and its investment in plant and machinery to make products for the UK in its new facilities in Poland. Without this information, Kraft’s belief, no matter how well-intentioned, that it could continue to operate the Somerdale facility on a commercial basis was, in the opinion of the Executive, not a belief which Kraft had a reasonable basis for holding.

Kraft had an opportunity to take mitigating action once it gained access to representatives of the Cadbury management team, which first occurred on the night of 18/19 January. Kraft was told on that night that the phased closure of Somerdale was well advanced, that money had been committed, and that both equipment and people had been, or were in the process of being, moved out. However, Kraft did not

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<sup>28</sup> [www.thetakeoverpanel.org.uk/wp-content/uploads/2009/12/2010-14.pdf](http://www.thetakeoverpanel.org.uk/wp-content/uploads/2009/12/2010-14.pdf), page 3, paragraph 3

<sup>29</sup> *Ibid.*, page 4, paragraphs 2 and 3

<sup>30</sup> *Ibid.*, page 4, paragraph 5ff

<sup>31</sup> Emphasis added

take this opportunity to seek further information from Cadbury in order to establish whether the closure was so far advanced that it was unrealistic to reverse it.

Kraft is hereby criticised for not meeting the standards required under Rule 19.1.

25. The decision continues by regretting certain omissions of Kraft's investment bankers, although it exonerates them from principal blame.

26. The Takeover Panel, therefore, accepted that Kraft had an honest and genuine belief and that Kraft believed there was a reasonable basis for it. These are both aspects of the subjective test: the belief was found to be genuine because in Kraft's view it was reasonable. The fact that they are both aspects of the same test is important, for reasons to which we shall return below.

27. When he gave evidence to our predecessor Committee, Mr Firestone repeatedly asserted that Kraft had a reasonable basis on which to base its statement:

“we had a reasoned basis for it”<sup>32</sup>

“we had a commercial rationale for this statement”<sup>33</sup>

“[w]e made the statement based on sound commercial logic”<sup>34</sup>

“based on what we had read publicly our business rationale was consistent with what we believed to be the state of play”.<sup>35</sup>

28. However, ultimately he conceded there was, in fact, a significant level of uncertainty:

Q 248 Roger Berry: If you did not know the state of the works why on earth did you make that statement?

Mr Firestone: Again, I can only say based on what we had read publicly our business rationale was consistent with what we believed to be the state of play. Indeed, when we made the statement the machinery had not, in fact, gone into the factory. It was wide open at that point in Poland.

Chair: So you guessed, that is the bottom line.

Q249 Roger Berry: You have just admitted you knew the uncertainty about the future.

Mr Firestone: Yes.

29. What is not uncertain, however, is the Takeover Panel's decision on the second and much more important test, the objective test. It states that the belief was *not* one that Kraft had an objectively reasonable basis for holding. Kraft therefore failed the objective test, and for that reason was criticised; because its statements lacked an adequate basis in fact.

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<sup>32</sup> 16 March 2010, Q 234

<sup>33</sup> Q 236, *ibid.*

<sup>34</sup> Q 241, *ibid.*

<sup>35</sup> Q 248, *ibid.*

30. When he gave evidence to us, Mr Firestone put great emphasis on the Takeover Panel's decision on the subjective test. He argued that the Takeover Panel decision had three elements: a test of good faith, a test of subjective belief or basis, and the objective test.<sup>36</sup> This served his interests, because it enabled him to claim, as Kraft had already claimed in its press releases issued after the decision, that the Panel had found in its favour on two out of three elements—those concerned with Kraft's good faith and belief. However, he overlooked the point that having a good faith belief, and believing one has reasonable grounds for it, are, if not the same thing, at least both subjective matters. The Takeover Panel applied two tests, not three.

31. Continuing with this defence he asserted that:

They [the Takeover Panel] agreed that there was a commercial rationale for saying that we would use the Polish facilities for Eastern European production, and use the Somerdale of Keynsham facility for UK production [...] They accepted that that was a reasonable commercial rationale."<sup>37</sup>

32. This is only a partially accurate reflection of the Takeover Panel's decision. The decision was that Kraft believed that there was a commercial rationale, not that there actually was such a rationale.

33. What Kraft seem to be trying to derive from the decision is that it was all right for them to believe they could keep Somerdale open provided their belief was genuine and based on a reasonable theory. But that is not what the Panel said. The attempt to argue otherwise, and the whole construct around there being three elements to the Panel decision, were therefore misleading, as in our opinion were the press releases that Kraft issued at the time.

34. Mr Firestone's interpretation of the Takeover Panel findings is worrying for another reason, in that he used it to further justify Ms Rosenfeld's non-appearance before the Committee. We asked him whether the decision was a sufficiently serious issue to merit her appearance, and his answer, "Not in and of itself, no, sir",<sup>38</sup> drew support from his interpretation of the decision. This is just not good enough. Breaches of the Takeover Code are serious both in and of themselves and because in the present case the consequence has been a major review of the Code. We would have thought that that, again, justified some attention from the Kraft Chairman and Chief Executive Officer.

35. Neither Mr Bond nor Mr Bunker would accept that Kraft's corporate reputation had been damaged by the Somerdale episode, arguing that "Kraft [was] not well known in the UK"<sup>39</sup> and that "We are not an arrogant corporation."<sup>40</sup> Eventually, Mr Firestone intervened to say: "We certainly understand that reputations are fragile, and I certainly recognise that the controversy over Somerdale was a negative."<sup>41</sup> This prevarication by our panel gave the impression that there remains a level of denial about the Takeover Panel's

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<sup>36</sup> Q 51

<sup>37</sup> Q 51

<sup>38</sup> Q 29

<sup>39</sup> Q 63

<sup>40</sup> Q 68

<sup>41</sup> Q 69



decision which is not in the interests either of Kraft or its employees. It also demonstrated why we wished to have the Chief Executive Officer before us. The authority derived from her position would have avoided this confusion.

**36. The Takeover Panel decision found that Kraft did not have an objectively reasonable basis for its statements on Somerdale, vindicating the view of our predecessor Committee that Kraft acted both irresponsibly and unwisely in making its original statement on Somerdale. A company of Kraft's size and experience ought to have acted with better judgement.**

**37. The Takeover Panel criticism of Kraft was a serious matter. The Committee totally rejects the interpretation of the Panel's decision by Mr Firestone and presumably by Ms Rosenfeld herself. The Panel decision alone merited the appearance of Kraft's CEO before the Committee.**

## Changes to the Takeover Code

38. The Takeover Panel has now published its proposed changes to the Takeover Code for consultation.<sup>42</sup> These include a new proposed note to Rule 19.1:

### *Statements of intention*

A party to an offer must adhere to any public statement it makes during the offer period, whether in a document, an announcement or otherwise, relating to any course of action it intends to take, or not take, after the end of the offer period. Where no time period for the implementation, or non-implementation, of the course of action is specified, the statement must normally be adhered to for a period of at least 12 months from the date on which the offer becomes or is declared wholly unconditional.

39. In addition, there are proposals to strengthen the 'put up or shut up' regime so that virtual bids must be clarified within a four-week timeframe, to prohibit break fees in many situations, to publicise adviser fees and to place greater emphasis on the views of employees. The Government is also conducting a review in this area and we expect the Government to publish further details of its proposals during the summer.<sup>43</sup>

**40. Based on the experience of the Cadbury takeover, we believe there is a strong case for making pre-takeover statements about matters such as whether factories will be kept open binding for a defined period. We therefore welcome the proposed changes to the Takeover Code in that respect. The proposals on the timeframe for bids are also worth singling out as particularly welcome.**

**41. We recommend that the Government use the Kraft Takeover of Cadbury as a valuable case study when the Government comes to formulate its policy in this area, and we look forward to scrutinising its policies when they are published.**

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<sup>42</sup> [www.thetakeoverpanel.org.uk/wp-content/uploads/2010/12/2011-8.pdf](http://www.thetakeoverpanel.org.uk/wp-content/uploads/2010/12/2011-8.pdf)

<sup>43</sup> [www.bis.gov.uk/assets/biscore/business-law/docs/l/10-1225-long-term-focus-corporate-britain.pdf](http://www.bis.gov.uk/assets/biscore/business-law/docs/l/10-1225-long-term-focus-corporate-britain.pdf)

## 4 Kraft's undertakings on Cadbury manufacturing, R&D and brands

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### Introduction

42. In 2010, Kraft gave a number of undertakings to our predecessor Committee. In this section we consider the undertakings made in relation to manufacturing, R&D and brands, and the progress Kraft has made in its merging of the two companies.

43. Kraft undertook:

- To preserve the identity of the Cadbury brand and the company,<sup>44</sup> and to manage the brands, the assets and the people out of the UK;<sup>45</sup>
- To continue to base Cadbury marketing and sales in the UK;<sup>46</sup>
- To continue to produce, in the UK, Cadbury's Dairy Milk<sup>47</sup> and Cadbury's other products in UK production at takeover;<sup>48</sup>
- That R&D facilities would be maintained.<sup>49</sup>

### Current status

44. Kraft is now half way through its two-year commitment in relation to manufacturing and jobs in the UK. In the meantime, several major developments have been announced in relation to HQ functions and R&D.

45. In March 2010, Kraft said that it would make up to 150 workers redundant in the Cadbury finance, legal and communications departments, mostly at the headquarters in Uxbridge near London and also at the Bournville site in the Midlands. In May 2010, Kraft announced that it would close its own Cheltenham HQ, which employed 450 people, but would transfer the HQ functions to Bournville and Uxbridge.<sup>50</sup> Finally, in December 2010, the company announced that it would move a number of key management roles to Zurich.<sup>51</sup>

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<sup>44</sup> 16 March 2010, qq 174 and 176

<sup>45</sup> Q 175, *ibid.*

<sup>46</sup> Q 215, *ibid.*

<sup>47</sup> Qq 177 and 179, *ibid.*

<sup>48</sup> Q 182, *ibid.* However, this was qualified by the proviso that there were no plans to move production as of March 2010

<sup>49</sup> Q 298, *ibid.* This applied to Reading, and was qualified by a proviso that the commitment was not in perpetuity. There was a statement of intention to invest in Bournville at Q 193.

<sup>50</sup> *Financial Times*, 11 May 2010, 'Cadbury bases to become Kraft UK HQ'

<sup>51</sup> BBC News, 4 December 2010, 'Kraft to switch Cadbury jobs to Zurich'

46. Unfortunately, Kraft's Progress Report to us avoided reference to most of these announcements. However, it confirmed that Kraft had created 50 new expert positions at Bournville.<sup>52</sup> In addition, it said:

Last May we announced that Bournville, following a \$216 million (£135m) investment programme over the last five years, will be Kraft Foods' global centre of excellence for chocolate research and development. The centre of excellence will drive new product development, new technologies and best practices for such beloved chocolate brands as Cadbury Dairy Milk, Milka, Toblerone, Côte d'Or, Terry's, Flake, Creme Egg, Green & Black's, Suchard, Freia, Marabou and Lacta. Bournville will drive innovation for the Kraft Foods chocolate business all over the world.

We have met and exceeded our specific commitment to maintain Cadbury's R&D sites in the UK. Cadbury's existing science centre in Reading will become a global science and technology centre serving Kraft Foods worldwide. Both the global centres in Bournville and Reading are in addition to Kraft Foods' existing global centre of excellence for coffee, which has been in Banbury for more than forty years.<sup>53</sup>

47. Mr Bunker told us that Bournville is currently recruiting to fill 50 R&D vacancies,<sup>54</sup> that 50 sales roles are also being advertised,<sup>55</sup> and that recruitment is happening in Reading.<sup>56</sup> That is all good news indeed. Mr Bond also told us that some 40 of the Uxbridge workers had found alternative employment within Kraft.<sup>57</sup>

48. In the evidence session Kraft was, however, unable to extend its undertakings in relation to manufacturing and jobs, or to share the results of its manufacturing review.<sup>58</sup> Trevor Bond told us:

We are bringing jobs into the broader network. But we live and work in very uncertain times. I am passionate about Bournville, as you can tell, but I am also passionate about productivity. We have to drive productivity as well as investment. That means that we will not extend our guarantee after next year. What I can guarantee is a strong business, such as we have had over the past many years, is the best chance of long term success.<sup>59</sup> That said, Trevor Bond confirmed that Dairy Milk would continue to be produced in the UK for the foreseeable future.<sup>60</sup> He also told us that growth in the sales of Cadbury's Dairy Milk was strong and that Kraft had

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<sup>52</sup> Paragraph 7

<sup>53</sup> Paragraphs 20–21

<sup>54</sup> Q 71 and Q 92

<sup>55</sup> Q 111

<sup>56</sup> Q 163

<sup>57</sup> See Q 76

<sup>58</sup> Q 74

<sup>59</sup> Q 83

<sup>60</sup> Q 79

brought Cadbury hot chocolate production and a certain amount of chocolate egg production back to the Bournville site.<sup>61</sup>

49. Speaking about investment in Cadbury, Trevor Bond said:

In Sheffield we have our largest sugar manufacturing facility in Europe. In Bournville, we have over £150m worth of assets. We are businessmen. We make what is right for our consumers and customers, because that is what drives our businesses into the future. We have fantastic assets—brands, people and physical assets. Our responsibility to our shareholders and to the broader community is to continue to invest, innovate and grow them.<sup>62</sup>

In addition, Mr Firestone was able to confirm that the major Cadbury intellectual property would remain in the UK, to the extent that royalties are received on it by Cadbury UK from the Swiss entity.<sup>63</sup> This provided some reassurance both on Kraft's compliance with the previously given undertaking on brand management and on its payment of UK tax, albeit we heard that the senior marketing manager is now based in Zurich<sup>64</sup> and that strategic marketing decisions originate there.<sup>65</sup>

**50. We welcome the increased investment in Bournville. We also welcome Kraft's commitment to expanding the research role carried out at Bournville alongside the confirmation that the R&D facilities at Reading will continue.**

**51. Given Kraft's undertaking to manage the Cadbury brands out of the UK, we trust that all marketing posts other than that of the senior marketing manager will remain UK-based. We trust furthermore that marketing decisions made by Kraft at the European level will remain consistent with strong growth objectives for Cadbury products in the UK and across the region.**

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<sup>61</sup> Q 81

<sup>62</sup> Q 133

<sup>63</sup> Qq 116 and 117

<sup>64</sup> Q 108

<sup>65</sup> Q 120

## 5 Kraft's undertakings on pay and conditions and on community matters

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### Somerdale

52. The Somerdale factory was originally built by J.S. Fry & Sons but became part of Cadbury as a result of a merger of the two companies in 1919. A major factory redevelopment at Somerdale was begun following World War I, and the Quaker tradition of both businesses meant that the new factory, the one still standing, was built with social facilities and a sports ground alongside (the "Fry Club").

53. After its reversal of position on Somerdale, Kraft indicated that it would stand behind the programmes that Cadbury had put in place for Somerdale employees.<sup>66</sup>

54. Somerdale closed in early January 2011. Kraft's progress report told us about support for ex-employees by way of redundancy packages, re-training, and advice on job seeking. It said:

A number of employees have had support from Business Link to help them set up their own business; 200 have registered with the outplacement agency and 60 have now found other employment; around 50 are retiring or taking career breaks; 20 are relocating to other Kraft sites. [...]

The factory has recently stopped production, and we have been working closely with local authorities to come up with a blueprint for the future use of the site. This will provide both housing and employment opportunities.<sup>67</sup>

55. In evidence, Nick Bunker, President of Kraft Foods for UK and Ireland, told us that 100 former Somerdale employees have now found jobs elsewhere (26 in other Kraft facilities), while 80 have retired.<sup>68</sup> He said that the Somerdale site would go on the market later in March 2011, and that the Fry Club would be maintained and, if necessary, rebuilt in accordance with terms that had been agreed with the club.<sup>69</sup> Kraft subsequently confirmed that total redundancy payments for the 320 employees to whom redundancy applied amounted to some £32m.<sup>70</sup>

**56. We broadly welcome Kraft's approach to supporting former Somerdale workers to find employment. We trust that that support will continue to be delivered in a way that fully does justice to the long-standing loyalty of those workers.**

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<sup>66</sup> See Q 251, 16 March 2010, Firestone: "Does Kraft stand behind the programmes that are in place for the colleagues there? Yes."

<sup>67</sup> Progress Report, paragraphs 23–24

<sup>68</sup> Q 43

<sup>69</sup> *Ibid.*, and Q 168

<sup>70</sup> See Annex

## Pay and conditions in general

57. The undertakings given generally in relation to pay and conditions were:

- To maintain existing staff terms and conditions;<sup>71</sup>
- That existing pension arrangements would be honoured;<sup>72</sup>
- To engage in genuine union consultation.<sup>73</sup>

58. The progress report did not mention pay and conditions elsewhere than at Somerdale. In the oral evidence session, Kraft told us that as of March 2011 pay and conditions had not changed and that it was “unequivocally” honouring the commitment.<sup>74</sup> However, Kraft was about to launch a pay and conditions ‘harmonisation’ exercise between itself and Cadbury. Nick Bunker told us:

I stress that the project is to harmonise. It is not a cost-saving project, but it is a project to try to bring our new combined workforce on to a framework that is consistent [...] across the business.

59. We have since learned informally that this initiative was previously unknown to Unite, the union at Cadbury. In view of the undertaking on union consultation, that is rather regrettable. We understand that Unite has written to Kraft seeking further details of the harmonisation exercise. In light of the concerns expressed in the press after takeover<sup>75</sup> that the unions did not expect a large number of manufacturing jobs at Cadbury to be axed in the short term, but instead feared that Kraft would squeeze costs by cutting pay and conditions, we trust that the reply will be suitably reassuring.

60. Disappointingly, a large proportion of Cadbury senior executives have left, and there remain no Cadbury employees on the Kraft executive team.<sup>76</sup> There has been substantial press comment on the “brain drain” away from Cadbury including from former Cadbury executives.<sup>77</sup> When asked about this, Kraft were keen to stress more favourable statistics such as the two thirds of Kraft senior management who come from Cadbury, but we cannot help feeling that some of the soul of Cadbury has already been lost. We very much hope that it can be recovered.

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<sup>71</sup> The bid materials said: “[W]e confirm that the existing contractual employment rights, including pension rights, of all employees of Cadbury would be fully safeguarded.” See also Q 321, *ibid*.

<sup>72</sup> 16 March 2010, Q 322

<sup>73</sup> Qq 305 and 324, *ibid*.

<sup>74</sup> Q 145

<sup>75</sup> *Guardian*, 4 March 2010, ‘Unions square up to Kraft to demand pay rise for Cadbury workers’

<sup>76</sup> Q 96 and Q 100

<sup>77</sup> For instance, *Financial Times*, 20 March 2010, ‘Cadbury executives join top team’, *Economist*, 27 March 2010, ‘Small Island for Sale’, *Independent*, 22 April 2010, ‘Cadbury’s ad mastermind baulks at Zurich’, *Guardian*, 22 April 2010, ‘Drum roll: Cadbury gorilla guru goes’, *Financial Times*, 28 May 2010, ‘Kraft hit by exodus of Cadbury executives’, *Independent*, 5 July 2010, ‘Cadbury’s jobs fears realised as Kraft wields axe’, *Daily Telegraph*, 6 July 2010, ‘Kraft cuts 75pc of Cadbury senior staff’, *Mail on Sunday*, 25 July 2010, [insert title], *The Grocer*, 7 August 2010, ‘Former Cadbury exec Alex Cole lands top media role at Freud agency’, *Sun*, 3 February 2011, ‘I’ve Cad enough—One of the last remaining’, *The Grocer*, 19 February 2011, ‘One year on, can Kraft now celebrate its Cadbury deal?’

61. Kraft is anticipating synergies of some \$750m in costs and \$1bn in revenue growth from the merger.<sup>78</sup> There is concern that costs savings will be achieved at the expense of jobs or pay and conditions once the two-year commitments have expired, particularly in view of Kraft's levels of corporate debt.<sup>79</sup>

**62. Whilst we acknowledge that sensible synergies must be sought, we expect Kraft in deciding on where to make savings to bear in mind its particular responsibility to Cadbury workers in light of events of the past 18 months, as well as other factors such as the proceeds that will result from sale of the Somerdale site.**

**63. We expect Kraft to honour its earlier commitment on pay and conditions alongside and in addition to its further commitment not to make the current harmonisation exercise one with an objective of cost cutting. It should fully involve the union in that exercise.**

**64. We trust that redeployed workers such as those moving from Uxbridge or from Cheltenham to Bournville are being offered pay and conditions consistent with Kraft's undertakings.**

## Community and other matters

65. These undertakings were:

- To move Green & Black's to Fair Trade by the end of 2011;<sup>80</sup>
- To continue Cadbury Foundation funding;<sup>81</sup>
- To continue Cadbury's community and charitable activities;<sup>82</sup>
- To stand by Cadbury's London Olympics sponsorship.<sup>83</sup>

66. It would appear from the Progress Report and from oral evidence that these undertakings are being fully complied with.<sup>84</sup>

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<sup>78</sup> Q 125

<sup>79</sup> As discussed, for example, in *Financial Times*, 15 March 2011, 'Sweet growth still tastes sour'

<sup>80</sup> 16 March 2010, Q 327

<sup>81</sup> Q 334, *ibid.*

<sup>82</sup> Qq 338 and 339, *ibid.*

<sup>83</sup> Qq 186 and 187, *ibid.*

<sup>84</sup> Progress Report, paragraphs 25–38, and Qq 169 and 170

## 6 Concluding comments

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67. So far, Kraft appears to have honoured most of the spirit and letter of the undertakings that it gave to the previous Business, Innovation and Skills Committee, although we are concerned about the upcoming pay harmonisation and the shift of marketing management to Zurich. However understandable the latter might be, it does not sit entirely comfortably with the commitments to manage brands out of the UK.

68. We are encouraged, however, by the recruitment that Kraft is undertaking, by its commitment to research in the UK and by its wish to “invest its way to profitability”.<sup>85</sup> Whilst Kraft did not extend its undertakings on jobs, the strong indication to us was that the extent of investment at Bournville and other sites would only make sense alongside retention of employment levels in the UK. We trust that our interpretation is correct. If it is not, we shall expect any change in the position to be made public by Kraft at the earliest opportunity.

69. Our overall conclusion, therefore, is that, while there remain some significant concerns about Kraft takeover of Cadbury, a number of positive signs may be beginning to emerge. Those positive messages would have been considerably more convincing if conveyed directly to bodies such as ourselves from the top of the organisation. As for the future, Kraft’s witnesses asked us to judge Kraft on its deeds.<sup>86</sup> We shall.

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<sup>85</sup> Q 123

<sup>86</sup> Qq 81 and 134



## Conclusions and recommendations

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### Kraft representation before the Committee

1. The areas that principally concern this Committee in relation to Cadbury are Kraft's company strategy and its intentions with regard to UK jobs, and it is Irene Rosenfeld, as its Chief Executive Officer and Chairman, in whom Kraft has invested the principal authority to make announcements on such matters. For that reason, we believe that she should have made herself available as her company's principal witness. The manner of her repeated refusal to appear before a committee of Parliament demonstrates a regrettably dismissive attitude to a National Parliament—an attitude which we trust Kraft will rapidly take action to shed. (Paragraph 16)
2. It was deeply frustrating that so much time was spent on the issue of Ms Rosenfeld's non-attendance which ultimately overshadowed some of the positive developments in Cadbury. That situation could have been avoided had Kraft taken a more positive role in its engagement with the Committee. If Kraft's decision was driven by advice on public relations, that decision backfired. (Paragraph 17)

### Takeover panel decision

3. The Takeover Panel decision found that Kraft did not have an objectively reasonable basis for its statements on Somerdale, vindicating the view of our predecessor Committee that Kraft acted both irresponsibly and unwisely in making its original statement on Somerdale. A company of Kraft's size and experience ought to have acted with better judgement. (Paragraph 36)
4. The Takeover Panel criticism of Kraft was a serious matter. The Committee totally rejects the interpretation of the Panel's decision by Mr Firestone and presumably by Ms Rosenfeld herself. The Panel decision alone merited the appearance of Kraft's CEO before the Committee. (Paragraph 37)

### Changes to the Takeover Code

5. Based on the experience of the Cadbury takeover, we believe there is a strong case for making pre-takeover statements about matters such as whether factories will be kept open binding for a defined period. We therefore welcome the proposed changes to the Takeover Code in that respect. The proposals on the timeframe for bids are also worth singling out as particularly welcome. (Paragraph 40)
6. We recommend that the Government use the Kraft Takeover of Cadbury as a valuable case study when the Government comes to formulate its policy in this area, and we look forward to scrutinising its policies when they are published. (Paragraph 41)

## Kraft's undertakings

7. We welcome the increased investment in Bournville. We also welcome Kraft's commitment to expanding the research role carried out at Bournville alongside the confirmation that the R&D facilities at Reading will continue. (Paragraph 50)
8. Given Kraft's undertaking to manage the Cadbury brands out of the UK, we trust that all marketing posts other than that of the senior marketing manager will remain UK-based. We trust furthermore that marketing decisions made by Kraft at the European level will remain consistent with strong growth objectives for Cadbury products in the UK and across the region. (Paragraph 51)
9. We broadly welcome Kraft's approach to supporting former Somerdale workers to find employment. We trust that that support will continue to be delivered in a way that fully does justice to the long-standing loyalty of those workers. (Paragraph 56)
10. Whilst we acknowledge that sensible synergies must be sought, we expect Kraft in deciding on where to make savings to bear in mind its particular responsibility to Cadbury workers in light of events of the past 18 months, as well as other factors such as the proceeds that will result from sale of the Somerdale site. (Paragraph 62)
11. We expect Kraft to honour its earlier commitment on pay and conditions alongside and in addition to its further commitment not to make the current harmonisation exercise one with an objective of cost cutting. It should fully involve the union in that exercise. (Paragraph 63)
12. We trust that redeployed workers such as those moving from Uxbridge or from Cheltenham to Bournville are being offered pay and conditions consistent with Kraft's undertakings. (Paragraph 64)

## Conclusion

13. So far, Kraft appears to have honoured most of the spirit and letter of the undertakings that it gave to the previous Business, Innovation and Skills Committee, although we are concerned about the upcoming pay harmonisation and the shift of marketing management to Zurich. However understandable the latter might be, it does not sit entirely comfortably with the commitments to manage brands out of the UK. (Paragraph 67)
14. We are encouraged, however, by the recruitment that Kraft is undertaking, by its commitment to research in the UK and by its wish to "invest its way to profitability". Whilst Kraft did not extend its undertakings on jobs, the strong indication to us was that the extent of investment at Bournville and other sites would only make sense alongside retention of employment levels in the UK. We trust that our interpretation is correct. If it is not, we shall expect any change in the position to be made public by Kraft at the earliest opportunity. (Paragraph 68)
15. Our overall conclusion, therefore, is that, while there remain some significant concerns about Kraft takeover of Cadbury, a number of positive signs may be beginning to emerge. Those positive messages would have been considerably more

convincing if conveyed directly to bodies such as ourselves from the top of the organisation. As for the future, Kraft's witnesses asked us to judge Kraft on its deeds. We shall. (Paragraph 69)

## Annex

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### Email communications with Kraft

*25 March 2011*

I am writing with further information requested during the above hearing.

At Q47, Mr Zahawi requested information about the total amount provided in redundancy payments and transition support for employees. We confirm that this amounts to more than £32 million, in line with Cadbury's original commitments.

At Q117, Marc Firestone spoke of his understanding that the major Intellectual Property held in the UK relating to Cadbury brands will remain in the UK, with royalty payments accordingly flowing into the UK. We can confirm that this will be the case.

I have previously provided copies of the Somerdale brochures and will provide further information regarding Q109 as soon as possible next week.

Yours sincerely

Jonathan Horrell

*31 March 2011*

I am writing with further information requested during the above hearing.

At Q109, Mr Binley requested information about senior management positions in the UK. From our perspective, we think it is responsive to his question to identify the positions representing the leadership positions of the principal functions located in the UK. Nick Bunker is President Kraft Foods UK Ltd. In addition to Mr Bunker, the senior management positions in the UK include the following: Director Finance; Director Sales; Director Business Planning and Projects; Director Manufacturing, Chocolate; Director HR; Chief Counsel; Director Corporate Affairs; Director Integration; and Director Logistics and Operations. These roles are based in the UK.

With regard to our European Operating Company based in Zurich, this includes the senior category and functional management of our European-wide business.

Yours sincerely

Jonathan Horrell

# Formal Minutes

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**Thursday 12 May 2011**

Members present:

Mr Adrian Bailey, in the Chair

Rebecca Harris  
Dan Jarvis

Simon Kirby  
Nadhim Zahawi

Draft Report (*Is Kraft working for Cadbury?*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 69 read and agreed to.

Summary agreed to.

Annex agreed to.

*Resolved*, That the Report be the Sixth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

[Adjourned till Tuesday 17 May at 10.00 a.m.]

## Witnesses

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**Tuesday 15 March 2011**

*Page*

**Marc Firestone**, Executive Vice President, Corporate & Legal Affairs, Kraft Foods, **Trevor Bond**, President, Kraft Foods Europe, and **Nick Bunker**, President, Kraft Foods, UK and Ireland

Ev 1

## List of printed written evidence

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- |   |   |       |
|---|---|-------|
| 1 | Letter to Irene Rosenfeld, Chief Operating Officer and Chairman, Kraft Foods Inc., from the Chair of the Committee (16 December 2010)                 | Ev 25 |
| 2 | Letter to the Chair of the Committee from Marc S Firestone, Executive Vice President, Corporate & Legal Affairs and General Counsel (10 January 2011) | Ev 25 |
| 3 | Letter to Irene Rosenfeld from the Chair of the Committee (24 January 2011)   | Ev 25 |
| 4 | Letter to the Chair of the Committee from Irene Rosenfeld (28 January 2011)   | Ev 26 |
| 5 | Letter to Irene Rosenfeld from the Chair of the Committee (3 February 2011)   | Ev 26 |
| 6 | Letter to the Chair of the Committee from Marc S Firestone (9 February 2011)  | Ev 26 |
| 7 | Written evidence (31 January 2011)  | Ev 27 |

# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2010–12

First Report	The New Local Enterprise Partnerships: An Initial Assessment	HC 434 (HC 809)
Second Report	Sheffield Forgemasters	HC 484 (HC 843)
Third Report	Government Assistance to Industry	HC 561
Fourth Report / First Joint Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010, licensing policy and review of export control legislation	HC 686
Fifth Report	Government Assistance to Industry: Government Response to the Committee's Third Report of Session 2010–11	HC 1038





# Oral evidence

## Taken before the Business, Innovation and Skills Committee

on Tuesday 15 March 2011

Members present:

Mr Adrian Bailey (Chair)

Mr Brian Binley  
Paul Blomfield  
Rebecca Harris  
Simon Kirby

Ian Murray  
Mr David Ward  
Nadhim Zahawi

### Examination of Witnesses

*Witnesses:* **Marc Firestone**, Executive Vice President, Corporate & Legal Affairs, Kraft Foods Inc, **Trevor Bond**, President, Kraft Foods Europe, and **Nick Bunker**, President, Kraft Foods, UK and Ireland, gave evidence.

**Q1 Chair:** Good morning, gentlemen, and thank you for coming today. I wish to open with a short statement myself. May I explain the purpose of this morning's session? A lot has happened since Kraft last appeared before the Commons Business, Innovation and Skills Committee last March. The Report from our predecessor Committee strongly regretted Kraft's conduct and its plans for closing the Somerdale factory. However, it did also cautiously welcome Kraft's undertakings on the future of other manufacturing jobs within Cadbury. Subsequently, in May last year, came a finding from the Takeover Panel on the way that Kraft and its advisers had conducted themselves during the takeover of Cadbury, following on from which there have been several proposals for changing the law and codes of practice on takeovers in this country. As you know, further news on these proposals is expected shortly, and so in part this session will form part of a wider inquiry, to be completed in due course.

Over and above this, however, it was felt appropriate to conduct a further inquiry to assess the progress made by Cadbury since the takeover, and the implications of a number of policy announcements made since our first inquiry. Recently, there has sadly been the closure of the factory in Somerdale, in January this year, as well as the loss of certain jobs at Cadbury's headquarters. On the plus side, however, Kraft last year announced the expansion of research at Bournville, and has recently published a quite healthy set of Cadbury sales figures. You will no doubt be aware of the considerable level of interest in Cadbury among the media, the general public and of course the employees of the company. Cadbury is, historically, an iconic British company with a very strong brand, and a major employer. Its takeover by Kraft was bound to be an issue of considerable concern. It is the job of this Committee, as the Parliamentary Select Committee responsible for the scrutiny of Government and business to be rigorous and forensic in the examination of the issues arising from the takeover.

The Committee will have some difficult questions for you on areas such as the refusal of your Chief Executive Officer, Irene Rosenfeld, to appear before

the Committee, and also the Takeover Panel decision, especially as this is the first time Kraft has appeared before any scrutinising body since that decision was made. I would stress that we want your answers to be clear, accurate, and not to hold back on anything relevant. We remind you, as you were reminded last time, that it is contempt of Parliament to mislead the Committee. In view of the time-limited nature of some of the commitments made by Kraft to Cadbury, I must make it clear that this Committee will not hesitate to have you before it again in the future to assess compliance and consistency of Kraft's statements made to this Committee with subsequent policy developments. However, can I make it clear also that we are here to listen to Kraft's plans for development of the Cadbury business, and we do hope to hear plenty of good news. Can I ask each one of you, for transcription purposes, just to introduce yourselves with your business title?

**Marc Firestone:** Yes, sir. Good morning, Mr Chairman and Members of the Committee. My name is Marc Firestone. I am Executive Vice President of Kraft Foods, Inc.

**Trevor Bond:** Good morning, ladies and gentlemen. My name is Trevor Bond; I am the President of Markets for Kraft Foods in Europe.

**Nick Bunker:** Good morning. I am Nick Bunker. I am the President of Kraft Foods in the UK and Ireland.

**Q2 Chair:** Thank you. Can you confirm that each of you here today has the full authority to represent the views of the Kraft board and its Chief Executive Officer?

**Marc Firestone:** Yes, sir, we do.

**Q3 Chair:** All of you?

**Trevor Bond:** Yes.

**Nick Bunker:** Yes.

**Q4 Chair:** We have invited your Chief Executive to appear before us three times. In your response to the most recent invitation, you refer to "demands" for an appearance in person, although we actually suggested a video appearance. Did you actually consider a request for a video appearance?

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15 March 2011 Marc Firestone, Trevor Bond and Nick Bunker

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**Marc Firestone:** Mr Bailey, sir, what we considered, and what Ms Rosenfeld considered, were the people who she believes are best placed to address the questions of the Committee. As your opening statement says, the Committee is conducting a rigorous and forensic investigation. We welcome the opportunity to speak with you about the progress we have made since we appeared before the Committee last year, the actions that we have taken further to the commitments that we have made. As the CEO, Ms Rosenfeld believes that Nick, Trevor and I, as the people who are accountable for those commitments and closest to the market, are best placed to appear physically present, in person, to answer your questions as part of the investigation.

**Q5 Chair:** But in the last letter we were not asking her to appear physically. We were asking her to make herself available for video conferencing.

**Marc Firestone:** Yes, sir, I understand that. She believed that it would be best for Kraft, and without wanting to be presumptuous, for the purposes of a full and open discussion, for us to appear in person before the Committee. Therefore, as the letter indicated, and as the prior letter you received from her indicated, she has suggested that the three of us appear before you today to answer your questions. Two of us were here last year and Mr Bunker is the President of UK Business for Kraft Foods. As the Committee hearing proceeds and you ask us questions about the business, the activities we have undertaken, the progress we have made in research and development and developing brands, and working with our 5,500 people, we are certainly hopeful that we will prove to you that we are, in fact, able to answer your questions.

**Q6 Chair:** The Chief Executive, would you not agree, has a responsibility and role that is unique within any company. Would you agree with that?

**Marc Firestone:** Yes. The Chief Executive is the most senior ranking official in the company.

**Q7 Chair:** Would you also not agree that it is perfectly reasonable for a Committee to have questions that might only be answered by that Chief Executive?

**Marc Firestone:** Sir, obviously I have not heard your specific questions today. However, having reread the transcript from last year, and having understood some of the questions that have come up, and the interest in our activities in the UK, I understand that the inquiry is into facts and substance. It is reasonable for those people who are responsible for the facts and substance to appear before the Committee. As you say, the Chief Executive has unique responsibilities, which obviously include worldwide operations. Among them, of course, the UK is a top priority. The key point, however, again, is that we are here today to talk about the brands in the UK, the workforce in the UK, our colleagues, charitable contributions—

**Q8 Chair:** Could I just intervene at this point? Yes, all of those are relevant, but at the end of the day, it is up to this Committee to decide what it wants to talk about.

**Marc Firestone:** Yes, and we are here to talk about the topics in which the Committee is interested.

**Q9 Chair:** It would appear that the Chief Executive has, if you like, pre-empted the range of questions that we would want to ask.

**Marc Firestone:** Sir, with all due respect, I do not know what questions you will ask, but I certainly believe and absolutely hope that the questions you ask will be within our authority and accountability. That was the premise on which Ms Rosenfeld responded to you—in other words, that there would not be questions that would be uniquely within her knowledge and authority. To the contrary, as she said in her letter, we are close to the details. We have the seniority and accountability, as you have just asked us, to answer your questions, so while I understand the question, I also believe that we will be able to answer your questions.

**Q10 Chair:** We will see. Would you not think it odd that she has presumed that the questions that we would ask would all be within the sphere of your competences, but not those unique areas of competence that she exercises as the Chief Executive Officer?

**Marc Firestone:** Again, sir, with due respect, and not wanting to presume to know what questions you will ask, our understanding was, as the Report indicates, the Committee wants to have an annual follow-up or at least a first-year follow-up on the specific commitments that were given last year. Trevor and I were two of the three who gave those commitments. We certainly believe that those are within our responsibility. We understand also that you are interested in our activities in the UK regarding the brands Cadbury Dairy Milk, Kenco, Philly Cream Cheese, Curly Wurly, as well as R and D and other areas. To our understanding, from the Committee's Report and the letters that we have received, the subject matters are ones that we understand to be within our authority and expertise.

**Q11 Chair:** You did say, in the course of your reply, that you did not know all the questions that we would be asking. If that is the case, how could the Chief Executive presume that you could answer them?

**Marc Firestone:** Sir, in an effort to be respectful, I said that I do not want to presume that I can say what questions you will actually ask today, because I do not know that. What I said is—

**Q12 Chair:** If I can just intervene: you have said that you cannot presume. I do not see how the Chief Executive can say that she can presume.

**Marc Firestone:** Sir, I was saying that based on the information we have, including from the Committee Report, we can understand the scope of the questions. The Committee Report says that Kraft Foods have given certain undertakings. While the Committee accepts those undertakings, it recommends that there be a one-year-on investigation into the extent to which Kraft has honoured those undertakings. Based on this Report, we certainly know the subject matters herein, and based on that, we are in fact the people with the

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responsibility for honouring those undertakings. All that I am saying is that, during the course of a two-hour hearing, there may be a question that was not in this Report. I am just being respectful of the Committee's discretion to ask certain questions, but again, sir, the request for us to return a year after last year's hearing was within the scope of the undertakings we gave last year.

**Q13 Chair:** Would you not suggest that she alone has the authority to speak for the company on matters such as growth, on strategy, including whether factories should remain open? Somerdale of course is a case in point. This decision was made in her name. The press statements are made in her name. The annual report and answers to shareholders are made in her name. Why should she not be here?

**Marc Firestone:** Sir, there is no doubt that she has tremendous authority within the company. At the same time, however, a large organisation also functions through the delegation of authority. As the Committee minutes and records indicate, Ms Rosenfeld, as to the testimony last year, in writing formally endorsed all of the commitments and descriptions that Trevor and I and our colleague gave last year. There was an official authorisation of that. In a letter to this Committee as to this hearing, she also indicated that she had delegated to us formal authority to speak as to the matters that you have just mentioned, and that are described in the Committee Report as to last year's testimony.

**Q14 Chair:** Can you make decisions on closing factories?

**Marc Firestone:** Individually? No, sir, I do not have that authority. That is not within the scope of my authority, and I do not understand that to be a subject that will come up during today's hearing. My understanding is that today you will be inquiring as to whether or not we have honoured our commitment, which we have. We made a commitment last year to preserve manufacturing positions and locations for two years from last year's hearing. We have in fact honoured that commitment, and I have the full authority to describe the manner in which we have done so, as well as all the other points.

**Q15 Chair:** Once again, you are anticipating a line of questioning that falls within your particular responsibilities and remit. This Committee may wish to ask questions that only she could answer, and she is not here. That is our concern, and the point that we wish to make. Could I also just raise something else before I bring in a couple of my colleagues on this? Your letter to us, in response to our invitation to her, suggested that the last hearing went beyond spirited debate into rancour. Could I just ask you: do you not think that Select Committees are about spirited debate? I sometimes see excerpts not only of Select Committees but of Congressional committees, and believe me, they are pretty spirited as well. Why do you use that particular expression, and in what context do you think it was appropriate to use it?

**Marc Firestone:** I have no objection to spirited debate.

**Q16 Chair:** You have no objection to it?

**Marc Firestone:** To spirited debate? No, sir. I think that the purpose, whether it is a Select Committee hearing, a one-on-one discussion, or a media interview, is to elucidate facts. As you say, it is to get rigorous and forensic investigation of matters of importance. We fully understand, as you said in your opening comments, Mr Chairman, that the Kraft-Cadbury combination is one of interest to the Parliament, the British public, consumers, and many others. It is our pleasure to be here today to address the progress that we have made. We believe that we have been good stewards of Cadbury.

**Chair:** You will have plenty of opportunity to do so, I promise you.

**Marc Firestone:** Yes, sir.

**Q17 Chair:** Can I just point out the phrase that you used in your letter? "Indeed, a review of the transcript from last year's hearing shows that it went far beyond spirited debate to a remarkable level of rancour. For example, please see Questions 189 and 199."

**Marc Firestone:** Yes, sir?

**Q18 Chair:** Could you comment on that?

**Marc Firestone:** Yes. As I said, spirited debate is not something with which I have any question. I think that was the point: that it went well beyond that in my opinion, and it was nothing more than an opinion. I believe that there were elements where the facts seemed to be less important than some of the metaphors and characterisations that were being used of Kraft and Kraft's conduct, as opposed to a rigorous investigation of the actual facts. I emphasise, however, as the letter also states, that we have tremendous respect for this process, for the House of Commons, and for the Parliament. We have tremendous respect for the process of inquiry into the facts of what we have done, what we are doing, and how we are proceeding.

**Q19 Chair:** Do you not agree that it is quite normal for such a committee and committee members to, shall we say, heighten the impact of a particular question with the use of fairly colourful, but legitimate, language? That is part and parcel, if you like, of the dialogue and interaction that takes place in a Select Committee.

**Marc Firestone:** Sir, I have had one experience previously before a Select Committee, and this will be my second. I was simply offering an observation. I participated in a Select Committee where I came having spent an enormous amount of time learning as many facts as I could, and with the full intention of presenting those facts. I had an opportunity to do so that from time to time ran into obstacles of what might be called metaphor or rhetoric, rather than rigorous and forensic investigation. I am not in a position and would not presume to comment on how any legislature conducts its affairs. I am simply saying that, as an executive of a company in which this Government has an interest, I am here to answer your questions as directly and fully as I can.

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**Q20 Chair:** I would just make the point that the questions you have quoted, 189 and 199, from the previous Select Committee hearing, were about the closure of Terry's Chocolate Factory in York. This caused a great deal of ill-feeling, and substantially affected the perceptions of the Kraft company. In that context, do you not think it reasonable that members could speak in somewhat heightened terms about it?

**Marc Firestone:** Sir, again, as I recall I was attempting to explain that it was an operation that for 12 years we had sought to maintain, and tried to ensure its productivity and competitiveness. After 12 years of effort it became clear that, from a commercial perspective, it was a decision that we needed to take, although it was an extremely difficult decision regarding the individuals and our colleagues. In the course of that discussion, there were some metaphors that I think did not necessarily elucidate the facts, and some allusions and references, with all due respect, I believe were somewhat inflammatory in the context of that discussion. But, sir, again, I am pleased to answer these questions. But, with all due respect, it is really the facts and the substance that we are eager to address—whether it is Terry's of York, or our environmental programmes, or any of the other topics that we mentioned last year.

**Chair:** We are going to move on to those in due course.

**Marc Firestone:** Yes, sir.

**Chair:** I would make the point that you may have felt that the metaphors were somewhat florid at this Committee, but believe you me, they were nothing to what they would have been if you had been questioned by former employees of that particular company in York.

**Q21 Mr Binley:** It is nice to see you again, Mr Firestone.

**Marc Firestone:** Good morning, Mr Binley, sir.

**Mr Binley:** Can I ask you very straightforwardly and simply, and expect a simple and straightforward answer, as we normally expect of people from your country, why doesn't she want to come?

**Marc Firestone:** Sir, I will give you a straightforward answer. She believes that the best people to appear before you today, to answer what we understand to be the facts and the substance at issue, are the three people here this morning.

**Q22 Mr Binley:** Let me refer you to the meeting that she spoke at. I think it was in June or July last year. She spoke to 660 people in Bourneville, when she made some statements—I am talking about Ms Rosenfeld, I do not mean to be rude in any respect in addressing her. She made some statements about what might or might not have been. Clearly those were views that she held that she had not come to a decision about. Is it not right and proper that we should have the opportunity to ask her about those decisions? On the basis that she made those comments, shouldn't it be Ms Rosenfeld who answers those questions, and not you? I repeat: why does she not want to come?

**Nick Bunker:** I think, Mr Binley, you may be referring to a visit she made to Bourneville in October last year.

**Mr Binley:** October, sorry.

**Nick Bunker:** I will need to ask you the comments she made.

**Q23 Mr Binley:** Where is it? Sorry, let me find my papers. Can I come back to this? She said that she hoped there would be further expansion of both the workforce and manufacturing in this country, but it was a hope, not a definite statement. It was as though she were giving the workforce encouragement, but not really knowing what she might do to back up that encouragement. Is it not right and proper that we should ask Ms Rosenfeld about what was in her mind at that time? Is that not a good reason why she should be here?

**Nick Bunker:** I think from a UK perspective it is important to recognise that the business that Ms Rosenfeld runs is very large. She has a team of senior people in the various countries who run the business. In those comments, she would have been expressing the same hopes that I have, Mr Binley: that we can continue the successful growth of our business here in the UK, and continue to make an economic contribution to the UK. In that respect, she was echoing what we are trying to do in this country, which is to continue to grow our business and therefore be successful and contribute to the economy.

**Q24 Mr Binley:** Mr Firestone, to use a cricketing analogy, which I hope you will understand, is it not because she was on the back foot? She added that it was hard to say whether overall the merger of the two companies would result in a net loss or a net gain in jobs. Don't we have a right to ask her about that, on behalf of the people we represent? I repeat, simply give me a straight answer.

**Marc Firestone:** We are here to address exactly those types of questions, and whether it comes from us or from her I see is a significant point of difference for the Committee. Our focus from Kraft was on the substance of the answer.

**Q25 Mr Binley:** One final question, because I would love to get on the front foot. The first meeting was changed to meet her own diary requirements, and she failed to come. She was asked again, and she failed to respond, and the third time she was asked, we even offered her the opportunity of a video link, knowing that she is a busy lady, and she still refused to meet with us. I would like to know, then, whether you feel that, given her persistent non-attendance, it would be right for the British people, and specifically the workforce of Bourneville, to feel that she perhaps was not as bothered about them as a Chief Executive ought to be.

**Marc Firestone:** I think, sir, that she has tremendous respect for the UK. This transaction is enormously important for Kraft Foods Inc., generally. It is transformational for us. Again, I think that if there is a difference of opinion, it is as to how best to present to the Committee the key facts and substance. She certainly is interested in the 5,500 people who work as part of Kraft and Cadbury in the UK. She is certainly interested in the business growth that we have had over the last year. I would not infer from the fact that

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she is not here in person this morning any lack of interest in those subjects. I cannot say it more clearly than that, and while that may not persuade you, that is the reality, Mr Binley.

**Q26 Chair:** Could I just ask you, if the Chief Executive of a British company refused to appear before a Senate Committee, what would be the American perception of that company and that Chief Executive as a result of that decision?

**Marc Firestone:** There have been many, many UK acquisitions in the US, and, as you well know, the UK is the single largest investor by a substantial margin in the US. However, in the world of mergers and acquisitions between the UK and the US, there have been very few instances in which Chief Executive Officers have either appeared before a UK committee or before a US hearing. Some of the instances in which the US Congress has had CEOs of companies appear are in completely different factual circumstances. For example, in 1998, when BP acquired Amoco for \$45 billion, I believe—it was the largest acquisition at the time in the US—there was no request for the CEO of BP to appear. More recently, as you know, a German company has agreed an acquisition with the New York Stock Exchange, which has not prompted a Congressional inquiry. I think there really is very little precedent for Chairmen or CEOs of companies appearing in the context of cross-border transactions.

**Q27 Chair:** I did not ask you what the precedent was. I asked you what the public reaction would be.

**Marc Firestone:** I am saying that it is hard for me to predict the public reaction, given that there has been very little precedent at all for it.

**Q28 Chair:** I would point out that there was public criticism by the Takeover Panel of the policies of Kraft. Do you not regard that as a sufficiently serious issue to justify the appearance of your Chief Executive before a Committee hearing?

**Marc Firestone:** In and of itself, no, sir.

**Q29 Chair:** You do not?

**Marc Firestone:** Not in and of itself. That letter did criticise us and Lazard. Critically, on a point that the predecessor Committee inquired into at great length, that letter, while censuring us, made two very important points: one, that we had acted in good faith in making the statements; and two, that we had a reasonable commercial basis for making those statements.

**Chair:** I will come on to this question in a moment. I am just trying to draw out the issue of the importance and significance of this: the failure of the Chief Executive to appear to justify it, and the public perception, and media perception, of her refusal to do so.

**Q30 Nadhim Zahawi:** Mr Firestone, who presents to the analyst community when your company delivers its annual report?

**Marc Firestone:** Multiple executives. We had a presentation earlier this year, in which I believe five

or maybe six executives presented, including Ms Rosenfeld. If I were to add up the total percentage of time, it was probably a far greater percentage of the time of our Chief Financial Officer, the presidents of our operating units, and the Head of our Operations Group.

**Q31 Nadhim Zahawi:** But Ms Rosenfeld is there and is leading the team?

**Marc Firestone:** She was present, but I would say that if I were to go back and check the transcript, the greatest number of minutes were taken by the others.

**Q32 Nadhim Zahawi:** I understand that.

**Marc Firestone:** She was present. I am not saying that she was not present.

**Q33 Nadhim Zahawi:** Just a straightforward answer: she leads because she is the Chief Executive Officer? Yes, or no?

**Marc Firestone:** Yes. I said yes.

**Q34 Nadhim Zahawi:** Do you also agree that you control some of the world's biggest consumer brands, both at Kraft and at Cadbury?

**Marc Firestone:** Yes.

**Q35 Nadhim Zahawi:** Do you then also agree that in a world that is digital, transparency and accountability are important when it comes to that responsibility for those brands?

**Marc Firestone:** If I understand the question, I would say yes.

**Q36 Nadhim Zahawi:** Do you agree that Ms Rosenfeld led on the acquisition of Cadbury? She was front and centre here, talking to all the stakeholders.

**Marc Firestone:** She certainly was very prominent in that deal in terms of leading it and in terms of some of the specific issues, including Somerdale. As I said last year, I was heavily involved in that. I am trying to give straightforward answers, but I hope the Committee will allow me to elaborate, so as not to allow a straightforward answer to exclude other important points. She certainly, as the Chairman and Chief Executive, had the leading role, but there were others on her senior team, including me, who had critical roles as to aspects of the transaction.

**Q37 Nadhim Zahawi:** I am sure you did, but she led. She was front and centre.

**Marc Firestone:** Yes, she was front and centre.

**Q38 Nadhim Zahawi:** Do you understand why this Committee finds it hard that, when she is front and centre in front of analysts and when it comes to the actual acquisition, she is not front and centre here? Do you understand why we are upset about this? That is all I am asking.

**Marc Firestone:** I certainly see the frustration that the Committee is showing. With all due respect, as I mentioned earlier—I am not trying to debate a point—I am simply saying that I see a difference between the individual and the facts, and individuals who are closest to those facts and able to address them.

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**Q39 Nadhim Zahawi:** Before my colleague comes in, in your letter to us, you talk about remarkable levels of rancour. I have read the transcripts. I have been before the analyst community, and they are a pretty tough bunch. Do you not think that she is big enough to face a Committee like ours, when she faces the analyst community? She is a grown-up. Is she big enough for that?

**Marc Firestone:** There were multiple aspects of your question, sir.

**Q40 Nadhim Zahawi:** Just one aspect. Is she big enough to face a Committee like this, when she faces the analyst community on a regular basis?

**Marc Firestone:** She is a remarkable executive of enormous talent. I will just simply emphasise again that we seem to be personalising the inquiry on her as an individual, as opposed to an inquiry that consists of rigorous and forensic investigation into the facts.

**Chair:** Can I just intervene at this point? No, we are not personalising the inquiry.

**Nadhim Zahawi:** There is nothing personal here.

**Chair:** If any Chief Executive had refused to appear before this Committee, we would be making exactly the same observations.

**Nadhim Zahawi:** Do you see why it is not personal?

**Chair:** Please do not try to create the impression that this is some sort of personal issue.

**Marc Firestone:** I am sorry, sir.

**Q41 Nadhim Zahawi:** All I would say is that I hope that my questioning will show you why it is not personal. A Chief Executive goes front and centre to lead an acquisition, and goes before the analyst community to defend their business all over the world, including in the UK. I sit here and I find it difficult to understand why they cannot come before a Select Committee, and send someone who cannot even close a factory, because he does not have the executive responsibility, to speak on their behalf. It is not personal. It is a question of accountability and transparency, for your own good. Your brand, for the last 40 minutes, has been taking a very negative pasting, I would say. That is bad for you, because the world out there consumes your brands.

**Marc Firestone:** Mr Zahawi, by "personal" I simply meant individualised or about an individual. I did not mean a personal attack. In terms of the level of rhetoric, it is simply that there were certain words and comments used, and accusations made, that I, in all honesty, do not recall having come up, certainly in that way, in the many analyst calls that I have attended. They have not come up in the same way that they did last year. I am not here to characterise or to criticise. I have done my best to say that we are here this morning. I see your frustration. I certainly do not want our brands to suffer, to take a pasting, if that was the word. We have wonderful brands. We are proud of them: Cadbury Dairy Milk, Philly cream cheese, Kenco. Our business grew over 5% in the UK last year. We are committed to the brands and to the people.

**Chair:** We will be dealing with this.

**Marc Firestone:** I am trying to address the concerns that the gentleman properly raised.

**Chair:** I am about to move on to the very issues that you are talking about.

**Marc Firestone:** Thank you, sir.

**Q42 Mr Ward:** One of the reasons that we are spending some time on this is that you have presented us with quite a predicament. I could not help wondering what would happen, as very senior managers in your organisation, if a very serious issue cropped up in one of the units that you were responsible for, and you asked to see one of the senior managers to get a response, and they replied that they were going to send somebody else to see you, because in their view that was a better person. I think that you would be somewhat annoyed at that response. The predicament is that we hold a number of inquiries, of course, on very serious issues, and we give quite a lot of thought to the people that we invite. We do not do it willy-nilly; we do it for a purpose. I think precedent is actually quite an important word to use, because we decide who we think would be the appropriate person, and we are not used to those people responding to us and saying, "I do not think I am the appropriate person; I am sending someone else." That is actually a slap in the face, and really quite contemptuous, in my view, of this Committee. It is difficult for us, and it is not something that we expect, and I hope that it is something we will never experience again.

**Marc Firestone:** Mr Ward, I would just like to say that we respect the Parliament. We had understood that there was an understanding as to who would appear. It was in that context that the third letter, to which the Chairman referred, came.

**Chair:** I am going to move on from the issue of the Chief Executive now to talk about policy issues.

**Q43 Nadhim Zahawi:** Thinking through the Somerdale closure, what percentage of workers who were made redundant from Somerdale have found employment elsewhere?

**Nick Bunker:** I will answer that, if it is okay, because I run our UK business. As you will know, our Somerdale plant closed recently, and we finished production. We have worked exceptionally hard since the closure was announced in October 2007 by Mr Bond to find alternative employment for our staff there. About 100 have found alternative employment including 26 who have moved on to other Kraft facilities. About 80 have retired. We continue to provide support to the employees there, as we are doing in other locations impacted by some of the proposals we announced last year. Our focus now with Somerdale has moved on to redeveloping the site. The site will be marketed shortly, this month, in full co-operation with the local authorities. Hopefully it will create a multi-use site, which could well provide residential and employment opportunities as well. At the same time we will abide by and honour the commitment we made to the Fry Club to maintain it and, if necessary, relocate it within the site.

**Q44 Nadhim Zahawi:** Can you say something about the size of the redundancy payments that you have made, and also the budget that you have for helping people find employment? You also mentioned

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working with the local authority on the site itself. You talked about providing both housing and employment opportunities for the site. Will the asset that you realise be reinvested in your business in the UK, Mr Bunker, or will it go somewhere else?

**Nick Bunker:** There were multiple questions there, so I will try to answer them one by one. In terms of the way our staff have been treated as they transition from the business, they have been treated very fairly and with great respect. The redundancy payments are well beyond what is required by the law. The support that we provide to people is support such as outplacement, re-training, re-skilling, and access to networks of job opportunities. I cannot give you an exact figure on how much we are spending, but I can assure you that we are treating everyone as fairly as possible, with great respect, and well beyond what is required from the law. In terms of the site itself, we have produced a document called *A Vision for Somerdale* in full co-operation with the local authority, BANES. The site will be marketed to a developer, and we hope very much that that will result in a new Somerdale, as set out in the vision document. As to what will happen to the proceeds of that, I cannot speculate at this point in time.

**Q45 Nadhim Zahawi:** So they will not stay in the UK?

**Nick Bunker:** I did not say that, sir. I said I cannot speculate about the future at this point in time.

**Trevor Bond:** What we can say, and also said last year, is that we have a long-term capital investment programme in the UK. In Bournville we have spent over £100,000,000 over the past five years. This year we will spend many tens of millions of pounds in capital on our facilities.

**Q46 Nadhim Zahawi:** We will come back to that in the course of the questioning. Can I just go back to why you cannot tell us what you spent on the redundancy and transition, in financial terms? Is it because you do not have that number, or is it something that you do not want to share publicly?

**Nick Bunker:** I do not have it with me.

**Q47 Nadhim Zahawi:** Would you be prepared to write to us with that number, to tell us what it is?

**Nick Bunker:** I would have to check to ensure that we do not provide something that is commercially confidential. I can absolutely assure this Committee that everyone who has moved on from our business in Somerdale has been treated fairly and with respect. The redundancy payments that have been received are well beyond what is required from the employment law in this country. I do not know whether we can disclose the exact calculation that we use.

**Q48 Chair:** Can I just intervene at that point? I believe Mr Firestone is the senior legal adviser. Could he not give us clarification on that?

**Marc Firestone:** On disclosure to this Committee of the specific terms of the redundancy packages? I am General Counsel for the Corporation, but of course I am not a UK-trained lawyer. If that is a subject of interest to the Committee, I will ensure that we give

you as much as UK law provides, subject, if necessary, to whatever confidentiality provisions are appropriate in dealing with the Committee.

**Trevor Bond:** There is a lot of excitement about the numbers—I can hear that—but this is about real people. What we have done, and what we said we would do last year, is treat every one of those as individuals. We had extensive outplacement—Nick mentioned 26 people whom we have moved to other Kraft sites. We have had great co-operation with the unions. Some of our union colleagues from Bournville actually went down to Somerdale and talked to their people, and helped some of those people to make a pretty tough choice, which was whether to move from the Bristol area to the Birmingham area. We have paid, in line with our consultative agreements with Unite, good redundancy packages, but obviously what we are trying to do, working with them, is to get many people jobs into the future as well.

**Marc Firestone:** One of the concerns last year was that Kraft would somehow reduce or limit the programmes that Cadbury had in place, and we did not do that at all.

**Q49 Nadhim Zahawi:** I hear you, and the feedback that we have had reflects the position that you have just outlined about the levels of work. I do not think that we are interested in specific redundancy packages, because that would be wrong, and data protection would be breached. I think it is more the aggregate, the overall number that you spent on both redundancy and the transition budget.

**Trevor Bond:** We could certainly provide you with that.

**Marc Firestone:** We would be pleased to provide that to the Committee.

**Q50 Nadhim Zahawi:** Thank you very much for that. Could I just turn to the Takeover Panel decision? This is probably the first time since the decision was made that you have come before a UK scrutiny committee on that decision. I think this question is probably to you, Mr Firestone: do you accept that decision by the Takeover Panel?

**Marc Firestone:** Yes, we accepted it.

**Q51 Nadhim Zahawi:** If you do, then why did you claim repeatedly in your testimony before us that you had reasonable grounds for the statement that you made?

**Marc Firestone:** Because we did, and I believe that the Takeover Panel did acknowledge that. As I started to mention earlier, the opinion really has three components. One, did we act in good faith? Two, did we have what the Panel called a subjective belief or basis? Three, did we have what the Panel called an objective basis for it? There were a series of meetings and an extensive investigation conducted by the Panel, in which they heard from many witnesses and saw lots of evidence. On the first two grounds, they agreed that we had a good faith basis for the statement, and that we had a subjective basis. They agreed that there was a commercial rationale for saying that we would use the Polish facilities for Eastern European production, and use the Somerdale or Keynsham

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facility for UK production. This is the point that I was making to the Committee last year. They accepted that that was a reasonable commercial rationale.

Where they differed, and where there was very little precedent, if any, was on an “objective” basis; i.e. did we have enough hard evidence about the state of Somerdale to justify having made even a belief statement? We had pointed out to the Panel that in our statements we had said that it was a belief. There were cautionary statements in our offering documents, saying that we did not have due diligence access, but the Panel believed that those cautionary statements were not sufficient to justify having made a statement about potential employment.

**Q52 Nadhim Zahawi:** In your statement, and I quote, you said, “The Panel has confirmed that we acted in good faith and has accepted that we had a sound commercial rationale for making our statements.” Is that what you said at the time?

**Marc Firestone:** At the time of the Panel decision? Yes. It must be a press statement or something.

**Q53 Nadhim Zahawi:** I am reading from your statement.

**Marc Firestone:** Okay. I was confused with the statement last year, because that was preceding that.

**Q54 Nadhim Zahawi:** That sentence reads, “The Panel has confirmed that we acted in good faith and has accepted that we had a sound commercial rationale for making our statement.” Let me read you what the Panel actually said. They open by saying, “The Executive accepts that Kraft held an honest and genuine belief that it could keep Somerdale operational.” But then they go on, which is why you need to read the two paragraphs together, rather than take that and go out and spin it to the media. They go on to say, “However, the Executive considers that Kraft should not have made the statements in the form in which it did in circumstances where it did not know the details of Cadbury’s phased closure of Somerdale and its investment in plant and machinery to make products for the UK in its new facilities in Poland.” Taking those two paragraphs together, do you not think that your statement that “the Panel has confirmed that we acted in good faith, and has accepted that we had a sound commercial rationale for making our statement” is inaccurate?

**Marc Firestone:** No, sir, I think it is what I just said. There were three elements. Sound commercial rationale refers to the whole production footprint. The third point was, did Kraft, at the time that it made the statements, have enough factual information? So it was: “Did we have the basis for saying we could use the factory?” as opposed to, “Did we know enough about the state of play in Somerdale?” It was on the third point that the Panel said: “No, Kraft, we the Panel do not believe that you had enough factual information, and therefore we are censuring you.” So I do not think it is contradictory.

**Q55 Nadhim Zahawi:** Let me read it back to you again. Your statement, when the decision came out from the Takeover Panel, said, “The Panel has

confirmed that we acted in good faith, and has accepted that we had a sound commercial rationale for making our statement.” Anyone listening to that, whether it be the analyst community or anyone else, would conclude from that that you have been given the all-clear. What I say to you is that what you did was selectively quote from the decision. The decision opens by saying, “The Executive accepts that Kraft held an honest and genuine belief that it could keep Somerdale operational,” yes, but then it goes on. This is the crucial bit. This is where, if one is trying to be clever, to spin it, you take only the selective quote in the first paragraph.

In the second paragraph it says, “However, the Executive considers that Kraft should not have made the statements in the form in which it did in circumstances where it did not know the details of Cadbury’s phased closure.” If you read the censure in its totality, I put it to you that your statement was not just bullish but factually inaccurate. You are claiming that you had a sound commercial rationale, endorsed by the Takeover Panel. That is not what the Takeover Panel is saying. They have not endorsed your sound commercial rationale. They say that you may have believed it, but that they think your belief was wrong. They did not endorse your sound commercial rationale. Do you see what I am getting at?

**Marc Firestone:** I do.

**Q56 Nadhim Zahawi:** A very clever PR person has spun the first bit, and left the second bit out.

**Marc Firestone:** No, sir. We had extensive discussions within the Panel, which went on for hours, about the differences among opinions, belief, assertions of fact and so on. The sound commercial rationale refers to everything that we talked about here, and that we talked about for weeks before the Panel; i.e. whether there was an inherent commercial logic in saying, “We see a basis to keep Somerdale open and use the Polish facilities.”

**Q57 Nadhim Zahawi:** No. In their censure of you, they have said no. They have said, “However, the Executive considers that Kraft should not have made the statements.”

**Marc Firestone:** Because we did not have the facts.

**Q58 Nadhim Zahawi:** A commercial rationale.

**Marc Firestone:** No, no. We had the rationale. Here is the way that I would summarise it, sir. They accepted our theory, but said that we did not have the facts to support the theory. That is how I would distinguish it. That is what we discussed with the Panel. They accepted the theory of keeping Somerdale open and using Poland, but then they said that we should not have made the statements because we did not have enough facts to support the theory.

**Q59 Nadhim Zahawi:** Do you not think, then, that “the Panel has confirmed that we acted in good faith, and has accepted that we had a sound commercial rationale for making our statements” is a bit bullish? It is a bit over the top. On reflection, if you were going to rewrite that statement with those two paragraphs, would you not say that that is a bit exaggerated?



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**Marc Firestone:** Sir, I would say that it was a—

**Q60 Nadhim Zahawi:** You are allowed to reflect, by the way.

**Marc Firestone:** I am reflecting, and I am reflecting on what was, at times, an almost philosophical discussion over what is a belief and what is an assertion of fact. I believe the Panel would probably agree. I did my best to characterise what was a fairly complex fact. The key point is that the Panel's statement was public for all to read. Our statement was public, and just as you have done, anybody is free to compare the two and decide the accuracy of the statement. We tried our best to describe it in a way that was accurate.

**Q61 Nadhim Zahawi:** You decided not to appeal against the decision, and you said that in your statement. Was that meant to imply that, although you notionally accepted it, you did not really agree with it?

**Marc Firestone:** I think, as we said at the time, it was time to end the discussion. It was a matter of pragmatism. Our desire in the UK is to move on. I came before this Committee last year and did my best to explain every single detail about Somerdale with which I was familiar. I did my best to convey, with all sincerity, our apology to the individual employees whose expectations we had raised with our statement. We went through the Panel process. The Panel decision came out, and we decided that it was simply time to move on and do what we set out to do with this acquisition, which is to preserve the heritage of Cadbury and grow the business. That is what we are doing.

**Q62 Nadhim Zahawi:** Let me push you on that point, because that is quite an important point about the heritage and culture of Cadbury. The discussion that we have just had, certainly the way I interpret it, and this very bullish statement, the reaction of the company to a very serious situation, where there is a breach of the Takeover Code, is one symptom of the culture of Kraft, or the cultural clash between Kraft and Cadbury. A breach of the Takeover Code is a very serious situation, I hope you would agree. It reinforces the other symptoms, for example the statements made about Somerdale before the takeover was completed, and the idea that somehow you could keep it open. It is a series of symptoms that evidence that your culture at Kraft is very different from the culture of Cadbury.

**Trevor Bond:** Perhaps I can answer that. I used to work in Cadbury. I worked in Cadbury for over 20 years. I have now been in Kraft for over 12 months. A lot has been said about this topic. Certainly both organisations have a long history in the UK. Kraft has been in the UK for over 85 years, and Cadbury for well over that. I can speak personally from my point of view: I think the companies are very similar. We have a long history of things like the environment, with the Rainforest Alliance from the Kraft point of view, and Fairtrade and the cocoa plant issue from a Cadbury point of view. Many of the values that Cadbury talked about are the values that Kraft talk about as well. Nick can certainly talk about the UK in a minute, but my responsibility is across all of Europe.

When you put the Cadbury people and the Kraft people together, they have a common interest in brands, in innovation, and in how we can delight our customers and consumers. We are in the same business. We sell great branded food products. That unites us. Nick, from a UK point of view, do you want to talk about that?

**Nick Bunker:** Yes, I would like to, from a UK perspective. I have spent 12 months working with our combined business. I have spent many hours with thousands of our employees here in the UK. It is my biggest priority. We are very similar in the way we work, in our approaches to sustainability, to working in our communities, and in the way we work together. I am happy to tell the Committee that there are hundreds and hundreds of people in our combined organisation here in the UK who are very excited about the growth potential and the career development potential of what will be one of the biggest food companies in the UK. We are very proud to be the steward of some very big brands, whether they be Cadbury Dairy Milk, or Curly Wurly, or Kenco, or Philadelphia. It is brands that drive the excitement in our business. The cultures are very similar.

**Q63 Nadhim Zahawi:** Let me just take you up on that point, before I bring my colleague Mr Binley in. Do you think that your corporate reputation has been damaged by this episode?

**Nick Bunker:** As I have said on a number of occasions, I believe that Kraft were not well known in the UK. We have a long history and heritage here in the UK. Before we combined with Cadbury we employed 1,500 people in the UK. We now employ nearly 5,500. The challenge was that Kraft were not well known in the UK.

**Q64 Nadhim Zahawi:** My question was: has this episode damaged your corporate reputation? Yes or no?

**Nick Bunker:** My answer is that Kraft were not well known in the UK. There was a lot of emotion around the acquisition. What pleases me is that day in and day out I go to meetings and functions, and in the room you cannot tell the people who used to work for Cadbury and the people who used to work for Kraft.

**Nadhim Zahawi:** I understand.

**Nick Bunker:** You have a group of people who are coming together to create something new.

**Q65 Nadhim Zahawi:** I completely understand, but has it damaged your corporate reputation? This is a very specific episode where some statements were made, for whatever reason—let us put that behind us—and you had to then go back and do a U-turn on those statements. Has that damaged your corporate reputation? Yes or no?

**Nick Bunker:** I think that it is important that we talk about the deeds. The deeds are—

**Q66 Nadhim Zahawi:** It is a yes or no answer. Mike Clarke, your own Vice President, said, “We do need to do some work on our corporate reputation.”

**Trevor Bond:** To Nick's point, however, what we say and what we do are very important. What we do is

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that we have increased the amount of community activity that our colleagues do in the UK. We have increased the amount of Fairtrade. It is what we do that earns—

**Chair:** Could you just stop at that point? We are going to go on to the issue of community activity. Could you just address specifically—

**Nadhim Zahawi:** That is my point.

**Trevor Bond:** I think that corporate reputation is a function of many, many things.

**Q67 Nadhim Zahawi:** But was it damaged by this episode? Yes or no?

**Trevor Bond:** You are quoting Mike Clarke. What I can say is that our business performance has done well in the UK. For sure, we do not like to be in the media and those sorts of pages. What we want to be known for is our brands, and the great people that we have in our organisation.

**Q68 Nadhim Zahawi:** Sometimes transparency and accountability in a court of public opinion, in a digital world, can do you some good. Sometimes when you put your hand up and say, like Mike Clarke, “We do need to do some work on our corporate reputation,” it is not a bad thing. By just holding the line, actually you are sending out a negative message. You are then saying that this corporation is arrogant and does not believe that it has done anything wrong.

**Trevor Bond:** We are not an arrogant corporation. We are a corporation that focuses on doing things. Nick is actively involved in the Food and Drink Federation in their many sub-committees. We are actively involved in Fairtrade, in the community. It is what we do that builds our reputation.

**Chair:** With respect, that does not really answer the question, and we will go on to these particular issues. You will have the opportunity to make all these points to the Committee.

**Q69 Ian Murray:** Just to follow up my colleague on that, I think it is quite difficult to sit in this Committee and tell us everything wonderful that Kraft and Cadbury are trying to do. We are actually trying to deal with some of the issues that have been raised. Do you think that the former employees of Somerdale, who may be watching this, who had their expectations heightened by statements made by senior officials of Kraft would accept the answers that you have just given to that previous question?

**Nick Bunker:** I will answer that. I think that the previous employees of Somerdale, whom we continue to support, are respectful of the way they have been treated as we transition the factory. We apologised last year for the uncertainty we caused. That is all on the public record, and we have moved on to focus on helping those staff move on. As Trevor says, we are delighted that 26 of them have moved on to our other facilities, among the 100 who have found other employment, 80 have retired, and we continue to support them. My focus in the UK is to ensure that we continue to abide by the commitments we have made with regard to redeveloping the site, and especially redeveloping and maintaining the Fry Club, which has a long and rich heritage.

**Marc Firestone:** Mr Chairman?

**Chair:** Yes, I will bring you in, Mr Firestone.

**Marc Firestone:** Thank you. I think the reason my colleagues are emphasising the points that we will get to later is to show that we understand the need to build a reputation. We certainly understand that reputations are fragile, and I certainly recognise that the controversy over Somerdale was a negative.

**Nadhim Zahawi:** That is all I was looking for.

**Q70 Chair:** I do not know why your colleagues did not say that in the first place.

**Marc Firestone:** As I said, my colleagues wanted to emphasise what we are doing, as we said last year, to rebuild our reputation.

**Chair:** You will have opportunity to do that later.

**Mr Binley:** Just a very quick comment. I notice that you changed the information or the impression being given by your colleagues, because you felt that they did not have it quite right. They were not quite tuned. Don't you now understand that that is why we wanted your Chief Executive here, because she might very well have done the same with you.

**Chair:** Brian, may I now bring you in on the substantive issue of manufacturing?

**Q71 Mr Binley:** Yes indeed, and I am grateful. At the time of the acquisition, Kraft said that it would conduct a strategic review of its combined manufacturing network in the following six months. That time is up. What is the outcome of that review?

**Nick Bunker:** I will answer that from the UK perspective. If you will excuse me, I will put some context around the subject. There are many parts of our business that are changing at the moment. A year ago at this Committee, my colleagues and I supported a two-year commitment that we would not reduce employment in our manufacturing sites, and we would not close other manufacturing sites. At the same time, after the Committee, in May, we made two very important announcements. One was the establishment of Bournville as our worldwide research and development centre. Just over 10% of our staff in the UK work in research and development—highly skilled jobs. Today we have 50 vacancies in Bournville. We also announced Bournville as one of the two commercial offices for our combined UK business. That sadly resulted in a proposal to close commercial offices in Cheltenham, in Sheffield and in Banbury. We abide by the manufacturing commitment. We have reviewed our manufacturing network, and we continue to do so.

As we sit here today, we are one year into that commitment, and the really positive news is that we have had one year as a combined business, and we have had a good year. We should make no apology for talking about it. Our business has grown. Our manufacturing sites have delivered the competitiveness that they need to deliver to keep our business healthy. That is what it is all about. It is about a virtuous cycle of investment and growth, which will maintain the strong presence that we have in the UK.

**Q72 Mr Binley:** Mr Bunker, I am a businessman. I founded two companies. I do understand some of the

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concepts of business, and I certainly know that most companies grew, certainly in your sector and in mine, last year. We are not arguing about that. In fact, you were about 2% below your target, but let's not go too much into that at this stage.

**Chair:** It is going to be dealt with in the next—

**Mr Binley:** That is what I am saying. We have facts and figures too, and we can banter those. Let me talk about to the outcome of the review, which was the question I asked you. You can give me all the waffle in the world, and we can sit here for hours. I do not mind. I am happy to be here at three o'clock this afternoon, if you are. What we really want is the answer to the question: what was the outcome of the review? If you do not want to tell us, that will give us an answer. If you do, then I am sure the workforce would be delighted to hear it.

**Nick Bunker:** Let me explain to you the manufacturing footprint that we have in the UK. I am sorry to use jargon, if footprint is jargon. We have a very important manufacturing site at Bournville. It is the heart and soul of our business. We have just made two very important decisions that are a big vote of confidence in Bournville. One of them is around the establishment of research and development. The other one is about putting a commercial office there with hundreds and hundreds of people in.

Bournville is the home of Cadbury Dairy Milk. It makes sense in any manufacturing business, as you will understand, Mr Binley, to have your manufacturing, if it is highly automated, close to the centres of demand. The centres of demand are here in the UK. Our manufacturing footprint, whether it be Bournville, Sheffield, Marlbrook, Chirk or Banbury, remains critical to us in the UK. As long as our business continues to grow, those manufacturing sites will thrive.

**Q73 Mr Binley:** So that is what the outcome of your review is?

**Nick Bunker:** I do not think that this is the right forum—

**Q74 Mr Binley:** I would be bitterly disappointed as a businessman if that were the outcome of a very expensive review that took six months. So you can tell us no more than that?

**Nick Bunker:** We have had a review. Obviously in any business, you will understand the concept of commercial confidentiality as well. We have done a review. Our sites are very important to us. Our sites are delivering for us, and we are one year into the commitment that we made to this Committee last year.

**Q75 Mr Binley:** On 4 March 2010 you made 150 redundancies, mostly from Uxbridge, in the legal, financial and communications arms. On 10 May 2010 you closed Cheltenham HQ, which employed 450 people. I understand that some of those may have been redeployed, but certainly a few of them went, to say the least. In December 2010 the company announced that it would move a number of key roles to Zurich. You have made some quite serious strategic changes in your company, and yet you have told me about Bournville, which we welcome. We are

delighted that you are investing in Bournville. Hang on, I have not finished my question, Mr Bond. If you would allow me to do that, I would be grateful. Here we have a document that you presented to us—a report, *Update on progress made since Kraft Foods acquired Cadbury*, 31 January 2011. It says “UK workforce”, but there is not a mention of one of the things that I have just quoted to you in that report. Do you understand why we feel that this is a PR operation that has not gone very well, and why you do not give us the facts and the information that we need to make the judgments you make? Do you understand that not including information of that kind in the paragraphs on UK workforce seems to us to be blurring the situation in PR terms and not really giving us the facts?

**Nick Bunker:** Mr Binley, our business is about growing brands that people enjoy, around the country; that is what our business is about.

**Mr Binley:** I understand. I understand.

**Q76 Mr Binley:** Let me come back to you, then, on the difference in culture that we just talked about. Cadbury have been there for 186 years, based on a very ethical view of how business should be conducted. It is a company that was started by Quakers with a view that everybody had to benefit, know what the business was about and so forth. I live close to Cadbury. I remember the pride that people felt at Bournville. My view is that Cadbury would not have produced a document like that. Do you therefore accept that your waffle about, “We are so similar as to be untrue,” I am increasingly finding difficult to believe.

**Trevor Bond:** Mr Binley, let me answer your questions about the offices. At the time that we were in front of the Committee last year, we said that we would be integrating Cadbury into the Kraft network. Clearly, we were open at the time, as your dates show, about the global head office. We had, in Cadbury, a global head office based in Uxbridge. Kraft has its global head office based in Chicago. We made no secret of the fact that we would be having one global head office going forward. That is why we made 160 roles redundant in Uxbridge. Of those 160, we were able to find alternative employment for about 40 of those roles. Many of the other people have gone on and found other jobs. From a global point of view, with an integration, it is fairly self-evident that the acquirer will absorb that organisation.

To your point about the office structure in the UK, Kraft has been in the UK for over 80 years and has its office structure based in Cheltenham. The legacy Cadbury had its office structure based in Bournville and in Uxbridge. Nick announced in May last year that we will be consolidating that. The Cheltenham office has not closed yet. We are going through due process. We are treating people as we would have done in the past, with due respect, with understanding whether they can relocate, and getting into the personal situations of those hundreds of people there. What we are trying to do is to build a stronger organisation, not with a variety of different offices but just with two office centres in the UK. We are still going through that process with our colleagues, and

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therefore it is not appropriate for us to speculate or comment on those sorts of things until we have finished the consultation and communication with our colleagues.

**Q77 Mr Binley:** Mr Bond, thank you for that. It shows that you have been a Cadbury man for a long time. It is the sort of culture that I expected to hear, and have not heard for most of this morning. I am grateful that you have spoken to us adult to adult. That has been very helpful. Now let me go on and see whether I can get some more from you, which I think would be helpful to the workforce and to the people who are so dependent upon Cadbury. The workforce are one part, but they have families and so forth, so we are talking about a sizeable number of people. In evidence to our predecessor Committee, of which I was a member, Kraft made a number of commitments on manufacturing. Do you stand by them?

**Trevor Bond:** Yes, we do.

**Q78 Mr Binley:** Thank you. Can Kraft now confirm that it will continue to produce Cadbury Dairy Milk in the UK for the foreseeable future? If not for the foreseeable future, can you give us a timescale?

**Trevor Bond:** I remember the conversation you and I had last year.

**Mr Binley:** I remember it too.

**Trevor Bond:** I think I went into a brief description about how Cadbury Dairy Milk is made from fresh milk, whereas many of our competitors make their chocolate from purely powdered milk.

**Mr Binley:** Absolutely.

**Trevor Bond:** The nuance and the very nature of Cadbury Dairy Milk is such that we have, and we continue, to produce it in Bournville. Last year we had a fantastic year. I know that you have accused us of throwing facts and figures at you, but Cadbury Dairy Milk grew by over 11%.

**Mr Binley:** I am delighted. We all want to see British business grow. That is our objective too.

**Trevor Bond:** I am delighted that Cadbury Dairy Milk, as you will well appreciate, is made in a combination of Bournville, Chirk and Marlbrook, and it is those factories that produce the unique taste. As Nick said, we made at the time a two-year guaranteed jobs commitment: no compulsory redundancies at any of our sites in the UK, from a manufacturing point of view. We are only halfway through that, but in terms of Cadbury Dairy Milk, it has had a great year. It goes from strength to strength. Obviously we are all looking forward to the Olympics next year, where we can hopefully get our business growing even more strongly.

**Q79 Mr Binley:** Can I take it from that that Cadbury Dairy Milk will be produced in the UK for the foreseeable future?

**Trevor Bond:** Absolutely. When I used “foreseeable future” last year you wanted more. I think we all realise that what we have to do, and what we did last year in Bournville, is improve our output and our productivity. Only by doing that can we have an even longer foreseeable future. Our business is about growth and productivity. Last year, when we

announced that Bournville would be the global centre of excellence for chocolate across all of the Kraft network, I think that is a really big sign of our confidence in Bournville.

**Q80 Mr Binley:** Mr Bond, it is a pleasure to talk to a Cadbury man. This is very helpful.

**Trevor Bond:** I am a Kraft man now, Mr Binley.

**Q81 Mr Binley:** It never gets out of the soul, though, does it? Can Kraft confirm that it still has no current plans to transfer production of other Cadbury brands overseas, and for how long can that be maintained? Following the strategic review, can you offer any assurances beyond that position?

**Trevor Bond:** In terms of other products, we said at the time that we would stick by the two-year guarantee. Perhaps I can just illustrate that with a couple of examples. In our Chirk factory in North Wales, we have invested during 2010 and actually brought Cadbury Hot Chocolate back from a third-party manufacturer into our network. In the Assortments factory in Bournville, we brought some of our eggs, which we used to make at a third party, back into Bournville. Judge us by our deeds. Over the last 12 months we have brought work into our network.

**Q82 Mr Binley:** We are grateful that you have said that, because it is the deeds that count. However, you will recognise that there were some promises and some inferences given when we last met that proved to be slightly wide of the mark. I am sure that you can understand our concerns. Let me go on. Can you give us any specific commitments in relation to Chirk and Marlbrook in Herefordshire? It sounds as though you can.

**Trevor Bond:** They were covered by the commitments that we made last year.

**Q83 Mr Binley:** Okay. We are trying to establish what has happened in terms of the obligations that you gave. That is a fair thing to do on this particular issue. Are you now in a position to extend your commitment not to close further manufacturing facilities or impose further compulsory redundancies beyond March 2012? You told us last time that you would maintain that promise for two years. You have had your strategic review. Are you in a position now to confirm to us that you will not be imposing any further compulsory redundancies beyond that date?

**Trevor Bond:** I think, as you have heard from both Nick and me, we are increasing our investment in Bournville. We are bringing jobs into the broader network. But we live and work in very uncertain times. I am passionate about Bournville, as you can tell, but I am also passionate about productivity. We have to drive productivity as well as investment. That means that we will not extend our guarantee after next year. What I can guarantee is a strong business, such as we have had over the past many years, is the best chance of long-term success. We have shared last year's results with you.

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**Q84 Mr Binley:** It would be wrong of me to probe further and push you on that, because redundancies are a very sensitive matter in terms of families, and you could not possibly give me any further indication. But I think it has been noted that you cannot extend that. I suppose that we might regret that a little, bearing in mind what Ms Rosenfeld said before the takeover, when she said that Britain would be a net beneficiary in terms of jobs, yet when she visited Bournville, she said that it was hard to say whether the merger would result in a net loss or gain. She is reported to have said, "It will vary from area to area." Can I ask, therefore, how you would reconcile those two statements from a lady who refuses to come and talk with us?

**Trevor Bond:** I think that we have said all along that we will be reducing our office staff in the UK as we integrate the two office networks that I have already explained. What I can say, and what Nick has already said, is that we have increased our R and D team. We have increased our R and D by 50 heads, by 10%. We now have 10% of our total workforce, over 550 people, based in high-quality R and D, doing R and D for chocolate for the world, as Kraft.

**Q85 Mr Binley:** That is very reassuring, because we had a debate about that particular point when we last met. But I go back to Ms Rosenfeld and her statement that the UK would be a net beneficiary in jobs terms. Has it been so to date?

**Trevor Bond:** No. Because of all the uncertainty of the time, and the Somerdale discussion that we have had again today, we said last year that we would guarantee manufacturing jobs for two years from that date.

**Q86 Mr Binley:** I repeat: Ms Rosenfeld said before the takeover that the UK would be a net beneficiary in jobs terms. You cannot speak for Ms Rosenfeld, can you?

**Trevor Bond:** I have met Ms Rosenfeld on many occasions.

**Q87 Mr Binley:** That is the truth of the matter, is it not?

**Trevor Bond:** I cannot speak for my wife, and I certainly cannot speak for Ms Rosenfeld.

**Q88 Mr Binley:** Nor can I. I understand why you have said that, but Ms Rosenfeld is the Chief Executive of your company.

**Trevor Bond:** Can we talk about the facts, Mr Binley? The facts are—

**Q89 Mr Binley:** This is a fact.

**Trevor Bond:** —at the Committee last year, subsequent to Irene's comments, we replaced the comments that we had made up until that date with the two-year no compulsory redundancy, no site closures guarantee for our UK manufacturing operations. That is what we are currently running at the moment.

**Q90 Mr Binley:** Forgive me, forgive me. I repeat that Ms Rosenfeld said that the UK would be a net beneficiary in jobs terms. It is a specific, specific

statement. Indeed, you spent \$40,000,000 on your due diligence before this process was embarked upon, didn't you?

**Trevor Bond:** I did not.

**Q91 Mr Binley:** Ah, then it was Ms Rosenfeld who did?

**Trevor Bond:** What we said at the time was that, at the time, with the information that we had, that was when Irene made those remarks. Subsequently, obviously, with the Somerdale news—

**Q92 Mr Binley:** I am not going to Mr Firestone because we get lawyer talk. We are talking with you, and I rather appreciate that. I think that it is helpful. Do you understand why we are so concerned that the person who made statements of that kind did not come and meet with us? Just a simple yes or no. I would be delighted if that were the case, rather than the sort of talk that we have had.

**Trevor Bond:** When Irene made those remarks, she made them in good faith, and she made them with the understanding that Somerdale could remain open, as I think we have gone over on a number of occasions. Unfortunately, that was not the case, and therefore, in order to reduce the uncertainty that we had at the time 12 months ago, we issued a commitment around a two-year guarantee. What is really important, Mr Binley, is that people understand that we have to consolidate our offices and make our businesses stronger.

**Mr Binley:** I understand that. I understand that.

**Trevor Bond:** Not only that, but we are in the process of actively recruiting for 50 jobs in R and D in Bournville at the moment.

**Q93 Mr Binley:** And we want to keep them all.

**Trevor Bond:** We have. Nick has increased his sales force by 20, and has another 50 jobs.

**Mr Binley:** I am delighted.

**Trevor Bond:** You will accuse me, I assume, of spin, Mr Binley, but I am talking about real things, real people, and real investments in the UK.

**Q94 Mr Binley:** One final question on this business. Do you then feel that, in view of the fact that you did not have the facts you needed in terms of this takeover, that Ms Rosenfeld was immensely unwise to make the comments that she did?

**Trevor Bond:** She made those statements with the facts that she had available at the time, and she made them in good faith.

**Q95 Mr Binley:** Then that is a good reason why we needed to see her. Let me ask one final question on this particular section. How quickly is the £130,000,000 investment in Bournville proceeding, and can you clarify what it relates to?

**Trevor Bond:** It is proceeding on plan. I am going to get technical: last year we put down number six plant. We have a new moulding plant in Bournville, and some of the people who have moved from Somerdale are actually operating that moulding plant. We have, as I have mentioned before, egg packing and egg manufacturing plants. It is not one big thing, Mr

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Binley. It is a variety of investments across Bournville. If you live near it, you will realise it is a fairly large site. It is proceeding on plan, and we are delivering as we said we would in the capital case that we set out.

**Q96 Mr Binley:** We can keep an eye on that. That will be useful for the whole country, won't it? This is good news.

How many places does Cadbury occupy on the Kraft executive team that makes the real decisions, as opposed to broader consultative management teams? I understand that the team is made up of 11 people. How many people on that team are actually from Cadbury?

**Marc Firestone:** On the Kraft executive team there are no former Cadbury employees. The team is made up of people, some of whom have been with the company for a number of years, although a number of us on the team have recently come to the company from other firms.

**Q97 Mr Binley:** And yet Cadbury provide about 18% of your sales turnover, I understand, and perhaps a little more of your employment figures. Do you not think that it would be helpful, in view of the cultural differences between our two great nations—they have already been well highlighted—to say, “We really ought to have a couple of really good Cadbury people on this team”? I am bucking for a promotion for you, Mr Bond. I am asking Mr Firestone.

**Trevor Bond:** I appreciate your support.

**Marc Firestone:** Mr Bond is in fact a very senior executive in the company, and we would certainly welcome former Cadbury executives on the KET, as we have welcomed others. Let me mention a few points that I hope you will say are neither legal talk nor PR talk, but simply facts. There are about 125,000 people in Kraft altogether. Of the top 400—a very small group—about one-third are former Cadbury executives. Within that group they possess positions of significant managerial and executive responsibility. Mr Bond—Trevor—is President of our European Markets. Kraft Foods Europe is our biggest international group. The President of Kraft in India is a Cadbury legacy. The President of Kraft in Brazil is legacy Cadbury. There is a very strong representation of former Cadbury colleagues at key operational points in the company.

**Q98 Mr Binley:** Wouldn't it have been helpful in this whole process to have said, “The UK is a different country. We have been working here before, but really Cadbury was a very special company within the UK, and it would be useful to have somebody on our board who has a deep understanding of what Cadbury means to this country.” Wouldn't that have been the sensible thing to do?

**Marc Firestone:** Certainly during the integration process, one of the co-leaders of the process to integrate the two companies was from Cadbury, exactly for the reasons you mentioned. There are certain cultural differences between the nations, and between the companies.

**Q99 Mr Binley:** There certainly are.

**Marc Firestone:** Yes, I have been learning that. Also, going forward I think we will indeed look for opportunities to have people from Cadbury and other companies. Over 60% of our revenue is from outside the United States, so it is very much in our interest to have an international, global perspective.

**Q100 Mr Binley:** I will take those as hopeful words. Let me go on, however, to the 160 senior executives in Cadbury, of whom 120 had left by July of last year. How many are left of that 160 now?

**Trevor Bond:** If I can take that, I mentioned earlier on that 160 was the global head office for Cadbury. 40 of those people have found other jobs in our organisation. 120 have left; 40 are within the Kraft organisation.

**Q101 Mr Binley:** Did they all leave happily?

**Trevor Bond:** It was a hostile takeover. Clearly, when you are integrating an organisation, there are two people for one job. The people who leave are not necessarily always the people who are happy.

**Q102 Mr Binley:** If you were to think about it now, would you think that one of the results of a hostile takeover of the kind you mounted was the fact you could well lose a lot of very senior and good executives?

**Trevor Bond:** As Marc has mentioned, one-third of our top 400 managers across Kraft are legacy Cadbury. We try not to talk about it in the language of “legacy Cadbury”, because we are one business nowadays, but Brazil is our biggest market in Latin America, and it is run by a legacy Cadbury person; the Snacks division on the US is run by Jim Chambers, who is legacy Cadbury; all of Middle East and Africa is run by Lawrence MacDougall, who is legacy Cadbury. The list goes on. Over two-thirds of Nick's leadership team in the UK are legacy Cadbury people. To your point, Mr Binley, we have put people in senior positions, because we have chosen the right person for the new jobs

**Q103 Mr Binley:** Okay. This is my final question—genuinely my final question, Mr Chairman. What senior managerial positions are left in the UK in numbers terms, in relation to those in Zurich and Illinois?

**Nick Bunker:** In the UK, the situation that we have today is that we have 5,500 employees. As Trevor indicated, two-thirds of my senior management are from the Cadbury side of the business.

**Q104 Mr Binley:** I said, “What senior management positions are left in the UK in terms of relative numbers, compared with Zurich and Illinois?” That was the question.

**Nick Bunker:** There are 600 people in Zurich, and 5,500 people in the UK. I do not know the number in Illinois, I am sorry.

**Q105 Mr Binley:** In senior managerial positions? That is the question.

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**Nick Bunker:** In senior managerial positions? I would not know how to make the definition, Mr Binley.

**Q106 Mr Binley:** I would, in my company.

**Nick Bunker:** What I can be very clear about is that there is a strong and senior UK management team, based in the UK. There has been a lot of speculation about the numbers.

**Q107 Mr Binley:** Can you send us the figures? You clearly do not have the figures. That is fine, I understand that. Would you send them to us?

**Trevor Bond:** Mr Binley, as Nick was saying, we have a leadership team in the UK. We have marketing teams, sales teams and supply chain teams. We have over 100 marketeers based in the UK.

**Chair:** We are about to move on to this section.

**Trevor Bond:** Okay. We will struggle to answer your definition of senior management versus our definition.

**Q108 Mr Binley:** If you tell us what they are, and what level you are cutting off at with each of the offices concerned, it is a relatively simple equation to come to. Can you write to us? Answer yes or no.

**Nick Bunker:** Perhaps I could put it another way. The only very senior position that has moved from the UK to Switzerland is marketing.

**Q109 Mr Binley:** I just wanted a simple answer about senior management figures. I know that you can give it. You know that you can give it. Will you write to us?

**Trevor Bond:** I am not sure that we can, Mr Binley. I think it is confidential information.

**Chair:** Tell us the positions, then, and we will make our own judgment.

**Mr Binley:** That will be helpful.

**Q110 Simon Kirby:** Can I further this issue? I welcome the additional R and D jobs, but when it comes to finance, legal and communications, clearly you have not finished with the reorganisation. How many UK job losses are you anticipating in these head office functions?

**Marc Firestone:** I refer back to the answer that Trevor gave.

**Nick Bunker:** I shall repeat the answer that Trevor gave. It is very important here that the Committee makes a distinction between what was the global headquarters of Cadbury here in the UK, and what is the UK business of Kraft Foods, which is now a combination of Kraft and Cadbury. The closure of the corporate head office was announced last year. It was always very clear that it would be moved to Chicago. Of the 160 roles there, 120 people left the business, and 40 were reassigned to other parts of the business, either in the UK or in other parts of the Kraft world. In manufacturing, which is about 3,000 of our staff in the UK—

**Q111 Simon Kirby:** We will ignore the manufacturing, because that is something that you have said quite clearly will continue to be based here for the foreseeable future. I am specifically concerned about these double jobs, when you have a merger such

as this. You have said that there is still some work to be done with the office staff, and you still have some way through the process to go. How many job losses in these areas are we likely to anticipate in the foreseeable future?

**Nick Bunker:** I will not answer your question, but I will explain to you why. We are following due process with our staff. The context is that in one or two parts of our business, we are investing. We are investing in R and D jobs and in sales jobs, 70 and 50 jobs respectively. At the same time, we are bringing together our commercial headquarters locations. We are moving from five offices to two offices. It was announced last year, but it has not yet happened. To correct Mr Binley, the Cheltenham office is still fully operational, as is our commercial office in Sheffield and a commercial office in Banbury.

We are going through this process, which involves two changes. One is a change of location, and the other is a change of role. I am working very hard with my employees at the impacted sites, to persuade them to move with us: to commute to Birmingham, which is possible from Cheltenham, or to relocate to Uxbridge, for the various functions that will be based in those offices. We are consulting with our staff right now on that. I am sure you would agree that it would be disrespectful and unfair of me if I were to disclose numbers at this point in time. The one thing that I can say is that we anticipate the net reduction and the numbers impacted by our office location announcements to be significantly lower than the number that Mr Binley quoted.

**Q112 Simon Kirby:** You, like me, Mr Bunker, do not have the benefit of having been here last year.

**Nick Bunker:** I have read the transcripts, sir.

**Q113 Simon Kirby:** How does this reorganisation square with what the Committee were told last year—that the Cadbury brands and assets would be managed out of the UK? Surely that is not the case.

**Nick Bunker:** Cadbury brands are managed out of the UK. As Trevor said, there are 100 marketeers based in my offices in the UK. I have a leadership team that comprises all the functions that run this business. We take our strategic direction from Switzerland, as Kraft did beforehand. We are in the process of integrating the Cadbury business into that structure, which is what we said that we would do last year.

**Q114 Simon Kirby:** If we go to Switzerland, you said in your Progress Report that there will not be any tax savings from the relocation to Switzerland. Can you repeat that, so that we have it on record? Is that correct? I can read it out if you like. It says: “We expect the actual tax paid by the businesses in the UK before and after the acquisition to be roughly the same.”

**Marc Firestone:** May I address two or three points?

**Q115 Simon Kirby:** I would like you to answer the question.

**Marc Firestone:** To answer the question fully and accurately, there are a couple of interrelated points. One is the European management structure to which

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you refer. That relates to Switzerland, and that in turn relates to taxation in Switzerland relative to taxation in the UK. In the interest of answering the question accurately, I wanted to mention all three of those. The UK operation that you have been asking about, and which Nick and Trevor have described, is indeed focused on the consumers, the products, the customers, the brands, the supply chain, and so on in the UK. There are 100 marketeers in the UK, and so on. It is very much as we anticipated it would be. Intellectual property is owned here, and so on. Before the acquisition, both we and Cadbury had a European operating model. Across Europe, this manages brands on a strategic basis. It has the advantage of scale, decision making, allocation of resources and so on. It is very common, as the Committee knows, among multinationals to manage the businesses that way. It is without prejudice to the local marketing that we have described, and it provides opportunity for growth for each country to be part of the bigger picture.

Having established that as a model, there is the question of where to put the people. There has been something of a misperception that there are no people associated with that model. There are, in fact, 600 people altogether who are responsible for the European operating model. We decided to locate them in Switzerland. Before the acquisition we had about 600 people in Zurich, and Cadbury had about 100 people in another part of Switzerland, in Rolle, in the Canton of Vaud. There was a decision made to combine those two groups in Zurich. It did not make sense to have two locations, one legacy Cadbury and one legacy Kraft, in Switzerland. We put them in Zurich because Zurich is convenient. There is an office building that we found, there is infrastructure, and so on. That operation exists in Zurich, and it manages our pan-European brands on a strategic basis.

On the question of taxation, I would say that there has been some degree of confusion as to what impact, if any, having a European structure as I have described it in Switzerland has on tax receipts to HMT. By tax, I am focusing for the moment on corporation tax. Clearly, we generate economic benefits in terms of procurement, employment, VAT and other forms of tax, but for the moment, when I say tax, I am referring specifically to corporation tax. There have been reports of tens of millions of pounds or more in lost corporation tax to the Exchequer. I would like to address that specifically, because I understand how important that is, and how sensitive that topic is.

Point number one is that Kraft Foods Inc. is a US company, domiciled in the US. We are a responsible and compliant taxpayer. We paid approximately, on average, for the last five years, \$700,000,000 per year in tax to the US Federal Government, at an average rate of about 28%. That is about what the UK tax rate is. That is Kraft tax in the US, to the US Federal Government, which is where our headquarters are. We are a responsible taxpayer, and one that complies with the tax laws wherever we do business.

The question then is: what impact does the Swiss pan-European platform for managing our categories have on Cadbury's pre-existing corporation tax payments? Here is the important point: in the years

2004, 2005, 2006, 2007, 2008 and 2009—the six years preceding the acquisition—Cadbury was, in fact, a multinational. 75% to 80% of its business was outside the UK. Cadbury, like all UK corporations, operated under the group rules for taxation: group profits, group losses, group relief, as well as DTR, double tax relief. Looking at the years I have mentioned, the tax receipts for Cadbury were relatively low. In some years they were actually zero. The impact of the pan-European model for managing our categories across Europe on the tax situation in the UK, relative to Cadbury, is, as we said, de minimis. There is a misperception that there was a large amount of corporation tax from Cadbury to HMT that we are taking out, when in fact there was not. I emphasise again that Cadbury was fully compliant, and was paying an average global rate of about 28%, but the facts are what they are, and those are public figures in the Cadbury Annual Reports.

**Q116 Simon Kirby:** That is very interesting. Thank you for clarifying that misconception, perhaps. You mentioned briefly IP. I see last year that there was a shift between the various corporate structures, and certain IP rights in Russia, China, Brazil, Egypt, most of Western Europe and the US were moved outside the CHL group. Is there any intention, if it has not already been done, to move any of the UK IP outside of CHL Group? I think you alluded to that.

**Marc Firestone:** CHL? Oh, Cadbury Holdings Limited. As you can imagine, integrating these two companies is an enormous undertaking. We have moved companies under CHL; we have moved companies out from under Kraft entities. My understanding is that the major IP related to Cadbury remains held in the UK. There may be, in the future, minor brands that might move out, but as of today my understanding is that the major IP remains in the UK, as well as the manufacturing assets and so on. There is actually a royalty payment coming into the UK under a licence between CHL and the Swiss entity.

**Q117 Simon Kirby:** My question was whether you see that changing. That is the current situation.

**Marc Firestone:** That is the current situation. I do not believe that there will be a change, but allow me to double-check on that. There are so many moving parts. I do not want this to sound legalistic. I am trying to be accurate. I do not believe that there will be any material change.

**Q118 Simon Kirby:** I asked the question because there would be a worry if my friend Mr Binley were to support Cadbury Dairy Milk in good faith, thinking that he was supporting a UK company in the UK revenue stream, when actually the royalties were going outside the UK.

**Marc Firestone:** The royalties are coming into the UK.

**Q119 Simon Kirby:** You have said that. I am just explaining the reason behind my question.

**Marc Firestone:** I understand, and we are indeed sensitive to all of these aspects, obviously, as were Cadbury, and they made numerous public statements.



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Any large public company has to think about the commercial aspects and shareholder aspects. I can assure you that we are extraordinarily sensitive to the political, the public and the consumer aspects of this, as well. I can assure you of this. I have now been here twice, so I do have involvement in that aspect, even though I am not the tax lawyer or the IP lawyer.

**Q120 Chair:** Can I just pick up on the issue of marketing of the brands? Where will the strategic decisions on marketing of UK Cadbury brands be made—in Zurich or in the UK?

**Marc Firestone:** Sir, the way we have structured it is we have a pan-European operation, which is why Trevor is President of Markets, and we look at opportunities for our brands across Europe. Those strategic decisions originate in Zurich. What is critical, however, is that local marketing decisions, local consumer interaction, local customer interaction and so on are under the direct responsibility of the UK, of Mr Bunker. In our other European countries, it is under the direct responsibility of his counterparts. It is a blend between the two. The notion is, though, that we have—as did Cadbury, when it set up its own similar model—an opportunity for growth across Europe, by looking strategically at marketing across Europe. I think that the way we do this is to balance the local knowledge of the market and the local insight of the market with the pan-European resources. All of that is fully consistent with preserving the heritage of Cadbury, or similarly in France, where we bought iconic brands in France, such as the LU biscuit business and so on.

**Q121 Chair:** I can see the advantage of this approach in tapping into potential markets in Europe. But I can also perceive the potential disadvantage, that Kraft obviously will be looking at range of products, not all of them Cadbury's. It may well decide that effectively it is in its interest to invest in non-Cadbury products, rather than developing the specific Cadbury products. Can you give reassurance that in no way will the market development of the existing Cadbury products, and indeed even potential new Cadbury products, be disadvantaged as a result of this change of strategic decision making?

**Marc Firestone:** Why don't you address that, because you are on the front lines?

**Trevor Bond:** It is an obvious question to ask. All we can say is, "Look at our results." Last year, Cadbury Dairy Milk, under Kraft ownership, grew by over 11%. In 2010 we have increased our marketing investment year on year, and in 2011 we will do that again. The London 2012 activation programme, Spots v Stripes, and all of that, has been developed to delight our UK consumers. We have, as you would appreciate, different brands in different parts of Europe. Kenco, which is a coffee brand, is essentially a UK brand. We have launched Millicano this year, which is a new freeze-dried instant that tastes like proper coffee, as I would call it. We can develop things across Europe. That coffee product was developed in our global R and D centre in Banbury. We launch it across Europe using the local brands that are right for the local markets.

As a legacy Cadbury man, if you travelled across Europe, you will realise that it is not well sold across other parts of Europe. What we have is a strong business and brand in the UK that has investment and innovation, and we are all looking forward to 2012, where we can grow our business even more with the Olympic Games.

**Q122 Ian Murray:** Ms Rosenfeld said that the operating environment for the Kraft business as a whole was "challenging" and that Cadbury results were "somewhat below expectations". That is setting aside the UK growth, obviously, because it is a worldwide business. In 2008 Cadbury reported revenue growth of 7%. That was the last full year of figures available before the takeover. *The Financial Times* of this morning states that the world's second-largest food company by sales is now expecting operating earnings to be down for 2011, and there are concerns that input inflation and weak consumer spending in the developed world affected Kraft's 2010 results. I was wondering if you could comment on the results picture, and how that will impact on the Cadbury business in the UK?

**Trevor Bond:** Do you want to take that?

**Marc Firestone:** Yes, I can talk about it generally, and then maybe you can cover the UK. For 2010, we have just released our full-year figures. I believe that the Committee has our annual report, or what the US calls the Form 10-K. We reported solid financial results. Our top line, what we would call organic revenue growth, was 3.5%. If I may just interject one technical point, in order to answer fully I may use what are called forward looking statements, to the extent that you are interested in future statements, or non-GAAP statements. To the extent that I do this, there will be reconciliations and/or limitations on our website. I mentioned this point last year also, as I am required to do under US laws governing securities.

**Q123 Ian Murray:** I have read your rather interesting forward-looking statements qualification at the bottom of this document. It was of great interest.

**Marc Firestone:** Thank you, sir. I have tried to state it substantively accurately, but in somewhat shorter format. I appreciate the Committee's allowing me to say that. It helps me to answer your questions. Our growth for 2010 was 3.5%. For 2011, looking forward, we have confidence that in 2011 we will be in the top tier of our peer group. We believe that the underlying momentum of our business is strong. As Mr Zahawi was asking earlier, we recently presented to a group of securities analysts in New York. Six of our executives outlined what we believe is a very strong business strategy for going forward that shows how the combination of our global platform, with the snacks and non-snacks portfolios, will perform.

There is no question but that these are challenging economic times. They certainly are here in the European Union. Even though the UK is not on the euro, obviously we follow the euro crisis very closely. There are challenging macroeconomic conditions and microeconomic conditions, in terms of consumer choice, and there is the enormous question of inflation of many of our raw materials. The commodities that

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we use to make agricultural products, cocoa, coffee, oils, and so on, are at record highs—sometimes 30-year or 40-year highs. It is extraordinary to see. It is a challenging economic environment, but we believe that the strength of our brands, consumer loyalty to them and our overall scale give us confidence going forward.

**Trevor Bond:** Just to build on Marc's point, what we did last year was what we will do this year, which is to increase our marketing investment. We are not trying to cut our way to profitability; we are trying to invest our way to profitability. I would just echo Marc's point: with food inflation and commodity inflation absolutely rampant, it is a real challenge, not just for us but for any food manufacturer or retailer, to try to work through what is best to do in such unusual circumstances. I have never seen cocoa as high as it is at the moment. Nick has never seen coffee as high. It is a real issue for us, but despite that, last year our business in the UK had a good year.

**Q124 Ian Murray:** The often-heard quotation that Creme Eggs get smaller every year is actually true in this particular case then? They do get smaller year on year?

**Trevor Bond:** It is a perfect opportunity, and it will go on record, for me to say that the Creme Eggs in the UK have never got smaller. It is beautiful. They are not smaller this year than last year, and they are only 185 calories per Creme Egg. It is an affordable treat, and it is actually quite a good treat.

**Q125 Ian Murray:** Good advertising campaign. Let's go back then, because you said that you will invest your way out of difficulties, rather than cutting production costs. The Kraft takeover document referred to an opportunity to realise the synergies between the two companies of somewhere in the region of \$675,000,000. Since then we have seen figures of perhaps \$750,000,000 being stated, and also perhaps even synergies up to \$1.5 billion.

**Trevor Bond:** It is \$750,000,000 in costs and \$1 billion in revenue growth.

**Q126 Ian Murray:** But regarding the answer to your previous question, on the challenging economic environment that you are in, how will you realise those figures if you are investing out of these particular difficulties, rather than cutting production? Will there be significant pressure, going beyond the two-year guarantee that you gave this Committee, given that there is inflationary pressure on raw materials? The synergies that you have made may not be enough to balance that particular difference.

**Marc Firestone:** There is no question but that any company has to both manage costs and have a cost-effective operation, as well as look for top-line growth, which are our revenue synergies. We have discussed the programmes that we have for looking at working with suppliers, looking at our overhead expenses, better procurement strategies, and so on. It was also covered in our analyst presentation. This is partly related to the cost synergies, but in my own Department, for example, I am always looking for ways to reduce the operating costs of our functions. I

do not want to say that there is no focus on having a cost-effective operation. There absolutely is. I think that the point is also, as Trevor was saying, that we want to maintain brand quality. Food safety is a given, but beyond that is the quality of the brand and the packaging, the marketing, the investment. We have, in fact, been investing in brands.

The \$1 billion in revenue synergies relating to Cadbury and Kraft are things like route to market. For example, the distribution networks of the two companies are very complementary. There have been opportunities that have been identified to accelerate the growth of both companies through those. That is what we are calling a virtuous cycle of effective cost management and effective growth emphasis. Overall, without understating the need to manage costs, we very much want to have a mindset of growth at Kraft Foods Inc.

**Q127 Ian Murray:** But the mindset of growth, which I am sure that every company has, can be outweighed by the fact of circumstances completely outwith your control. The price of cocoa is one example: I believe that a very high proportion of cocoa production in the world is from Ivory Coast, which is going through very uncertain political and cultural problems at the moment. There are huge pressures there. You talked there about better productivity and better procurement, and reduced operating costs. That is corporate-speak for job losses, isn't it?

**Marc Firestone:** No, it is not. There are ways in which we have successfully renegotiated purchasing agreements, for example. I do not have the figures in front of me, but I think that when we talked last year, we broke down the cost synergies. There were large amounts that were not about people. If you are buying 100 widgets now, and you combine the two and you buy 150 widgets, you get a better price. We are very much focused on that as we go through. For example, and I am sure many companies have the same exercise, you find that you are buying from 40 suppliers. If you consolidate to fewer, you get a better price. It is, in fact, making sure that we are running the company as effectively as possible in those regards.

**Q128 Ian Murray:** I understand that. Let me just quote you a little bit from this wonderful statement at the bottom of your document here. It says: "This document contains a number of forward-looking statements, words and variations of words such as 'expect', 'goals', 'plans', 'believe', 'continue', 'may well' and similar expressions intended to identify forward-looking statements, and these forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control." We have talked about commodity prices, etc.

**Trevor Bond:** My only point on that, Mr Murray, would be that last year, in Kraft Foods Europe, we had a very strong financial performance, yet last year we had big commodity increases as well. Whilst we are obviously hesitant about talking about the future, what we can clearly say is last year, despite those challenges—and they were real challenges—we still delivered our top and our bottom line. This year, those challenges continue. To your point about the Ivory

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Coast, it provides a big supply of cocoa. It is the biggest supplier of cocoa in the world, and we are worried about that situation. But we have contingencies and plans in place. All we can do is to keep on delivering, and that is what we are about.

**Q129 Ian Murray:** I appreciate that. What I am trying to drill down on here is, could you give me your forward-looking statement? I am not being facetious when I say this, but I think that it is incredibly important and it goes to the nub of this secondary hearing after your appearance here before. What is your forward-looking statement, after the 2012 guarantee has expired, on jobs in the UK and jobs at Kraft? Given the answers to the previous questions, there are lots of instances where price controls are completely outwith the control of the company.

**Trevor Bond:** I will repeat again what I said earlier on today. We are not extending the two-year guarantee, but what we are doing is what we said we would do. We have continued to invest and innovate in Bournville. We have continued, with our workforce, to drive productivity. We have continued to deliver great performance in the marketplace. By marketing, innovating and by working together to drive productivity we can continue to be a very successful business.

**Q130 Ian Murray:** So at no time at any plant, at either Kraft or Cadbury legacy, beyond 2012, has there been any talk about job reductions at this stage?

**Trevor Bond:** We talk about plans into the future, but what I can talk about now is that we are only halfway through our two-year guarantee. To your point, Mr Murray, a lot of things have changed in those last 12 months, and a lot of things will change in the future. What I can do is what we have done over many years. I can say that we will continue to invest, and will continue to innovate, and will continue to drive productivity.

**Q131 Chair:** Can I just pick up on that? Earlier in your responses you made the point that you wanted to continue investment in your existing manufacturing facilities. I think that I am right in saying that. You listed them. You have now said that you cannot actually make a commitment beyond the two-year guarantee. What can we reasonably interpret from what would appear to be contradictory statements?

**Trevor Bond:** I do not think that they are contradictory at all, Mr Bailey.

**Q132 Chair:** Well, can you explain?

**Trevor Bond:** We are, and have been, a very successful business. Very successful businesses continue to be very successful by innovating, investing and growing. That is what we have done, and that is what we will do in the future. What I am saying is that we cannot extend the cast-iron guarantee, as I think it was referred to last year, of no compulsory redundancies. We obviously hope that we can work together and grow and develop our business, but I cannot extend the two-year guarantee.

**Q133 Chair:** So you cannot guarantee that there will be no compulsory redundancies after the two years at any of those manufacturing plants?

**Trevor Bond:** I think that we need to get in context the size of our manufacturing footprint. In Sheffield we have our largest sugar manufacturing facility in Europe. In Bournville, we have over £150,000,000 worth of assets. We are businessmen. We make what is right for our consumers and customers, because that is what drives our businesses into the future. We have fantastic assets—brands, people and physical assets. Our responsibility to our shareholders and to the broader community is to continue to invest, innovate and grow them.

**Q134 Chair:** You have not answered the question. I think that people will make their own interpretations of that. Can you guarantee that there will be no compulsory redundancies at any of those manufacturing plants?

**Trevor Bond:** 12 months ago we said that there would be no compulsory redundancies for two years. We are halfway through that commitment, and I can certainly guarantee that we fully intend to honour that commitment. If I could just reinforce what I have said before, in the last 12 months we have invested and brought work and production back into our facilities. Judge us by our deeds.

**Q135 Chair:** But you cannot guarantee it.

**Trevor Bond:** I think that I have made our position very clear.

**Chair:** I think that it is clear enough.

**Q136 Paul Blomfield:** I wonder if I could explore a couple of other issues in relation to the workforce. In the period leading up to the takeover, when you were developing a confidence-building narrative about Kraft's intentions, and indeed when you appeared before this Committee, you gave very clear commitments to maintain pay and conditions, and also to maintain the pension scheme. It is those two areas that I would like to explore. Are you still in a position to commit not to alter pay and conditions unfavourably within the UK workforce?

**Nick Bunker:** Marc, shall I answer that?

**Marc Firestone:** Yes.

**Nick Bunker:** As the question relates to the UK, I will answer. They are related. Let me start with pensions.

**Q137 Paul Blomfield:** Could you start with pay and conditions? I want to come on to pensions, if that is okay. What concerns me is that these are two critical issues, and yet in the Progress Report that you circulated to us they are not mentioned at all.

**Nick Bunker:** With respect to pay and conditions, as we sit here today we are still operating as two separate operating companies. That will change mid-year, when we integrate. At this point pay and conditions have not changed in any way. As we speak, we are going through a salary review, which is our annual review, which will take place across our business. We will soon initiate our discussions with Unite at our manufacturing sites.

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We have a project going on within our business to look at—and I use the word very carefully—“harmonising” our terms and conditions across our businesses in the UK. I stress that the project is to harmonise. It is not a cost-saving project, but it is a project to try to bring our new combined workforce on to a framework that is consistent and the same across the business. That is happening. When the project team have presented their proposals to me and my leadership team, and the proposals have been accepted, then we will enter a consultation period with our workforce on those potential and proposed changes.

**Q138 Paul Blomfield:** Can I stay with pay and conditions and ask a couple of supplementaries? Firstly, may I just confirm that any new employees that you are taking on within the Cadbury plants at the moment are taken on on exactly the same terms and conditions as existing staff?

**Nick Bunker:** In the Cadbury plants, that is correct.

**Q139 Paul Blomfield:** My question actually was whether you could confirm your commitment about maintaining pay and conditions going forward. Harmonisation is a word that could cover a wide variety of outcomes. It is a very comfortable word to describe what could potentially mean a reduction in pay and conditions for a significant section of former Cadbury staff. Would you give me a guarantee now?

**Nick Bunker:** I think that I need to repeat the words that I have used, which are that it is a harmonisation project, not a cost-reduction project.

**Q140 Paul Blomfield:** I take that, but your commitment, publicly and to this Committee previously, was that the pay and conditions of Cadbury staff would not be unfavourably reduced. Can you give us a commitment today that, as a result of the harmonisation process, you can maintain that commitment and their conditions and pay will not be unfavourably reduced?

**Nick Bunker:** The objective of the project we are undertaking—

**Q141 Paul Blomfield:** I understand what you are saying about objectives, but what will be the outcome?

**Nick Bunker:** —is not to reduce the costs of the terms and conditions of our combined staff. As I said, we are in that process right now, internally. Neither I nor my leadership team have yet seen the proposals coming through. We set the guidelines for which the project team were to operate, and we will consult with our staff at the appropriate time, which will probably be later this year.

**Q142 Paul Blomfield:** Can I ask, then, do the project guidelines include a reference to the previous commitment that you have given, that you do not want to see a reduction in the pay and conditions of Cadbury staff?

**Nick Bunker:** The project guidelines are very clear that it is not a cost-reduction project. In that respect I think I can say that we are abiding by the commitment

we made. We do have a job to do, as Marc said. Bringing two companies together is a highly complex process. We want to find a way over time where we bring terms and conditions together. That is what I have called harmonisation. The guidelines that the project team have state very clearly that it is not to do with cost reduction. That is not their objective. Their objective is to harmonise.

**Q143 Paul Blomfield:** But you are unable to reaffirm the commitment that you gave the Committee last year?

**Nick Bunker:** By explaining what I have explained, we are saying that we are not reducing terms and conditions as we go through this harmonisation project.

**Q144 Paul Blomfield:** I think that you are giving that commitment. That is fine.

**Marc Firestone:** When you say “reaffirm”, are you asking if we are honouring the commitment or if we are prepared to extend it?

**Q145 Paul Blomfield:** Honouring the commitment that you would not reduce pay and conditions.

**Marc Firestone:** Unequivocally, we are honouring the commitment.

**Q146 Paul Blomfield:** Can I move on to the pensions position? You were obviously keen to share on this. Where exactly are you in terms of your pension scheme that was previously enjoyed by Cadbury staff?

**Nick Bunker:** Cadbury announced a modernisation of their pension scheme before the acquisition by Kraft. That pension scheme modernisation has now been completed. It is still a very beneficial scheme, which provides defined benefits for the members of that scheme. Kraft have underwritten the deficit of the scheme, and we have agreed with the Trustees a nine-year funding plan to fund the deficit. We have made the first payment of £30,000,000 towards that deficit reduction.

**Q147 Paul Blomfield:** Again, my understanding of the commitment, and again I was not a member of the Committee at the time, was that the existing pension arrangements would be honoured.

**Nick Bunker:** That is correct, sir.

**Q148 Paul Blomfield:** So there is no reduction in the benefits for existing Cadbury staff?

**Trevor Bond:** Sorry, Mr Blomfield, if I can answer this?

**Paul Blomfield:** Of course.

**Trevor Bond:** Before the takeover, Cadbury assessed its pension provisions and, like most companies, we had a large pension deficit. Therefore like many other companies, and probably many other countries as well, we have had to review that to make sure it is appropriate for our colleagues, but also cost-effective for our business. As a result of that, to follow Nick’s point, we announced a modernisation, literally in the midst of the takeover bid. We were in the midst of consulting with our colleagues. That consultation has concluded, and yes, there is an increase in costs to

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members for staying in what is still a very attractive pension scheme, which compares favourably to most other pension schemes. Yes, people like myself have to pay more into our pension scheme, but the benefits are still very, very competitive.

**Q149 Paul Blomfield:** I obviously understand clearly the problems that all companies and organisations face in relation to pension schemes, which is clearly a very big debate. What I am trying to look at is the commitment that you made at the time, recognising, clearly, that anybody taking over any other company would be focusing very clearly on the pension liabilities.

**Trevor Bond:** There is no difference at all. No difference at all.

**Marc Firestone:** Kraft have honoured exactly what we said we would be doing. What Trevor is describing, to ensure that the full information is before the Committee, is that there were some changes within the Cadbury world that were under discussion preceding and during the course of the takeover.

**Q150 Paul Blomfield:** Were they subject to formal consultation with workforce representatives?

**Trevor Bond:** Absolutely.

**Marc Firestone:** Absolutely. 100%. Everything was taken care of in accordance with the law and the procedures, and we have fully honoured the commitments that Kraft made. To the extent that there were any changes, they were changes that were in motion, shall I say, and changes that were ultimately accepted as part of the consultation process.

**Q151 Paul Blomfield:** In summary, the changes are that there is an increase in personal contributions?

**Trevor Bond:** We are basically going from final salary to career average for people currently in the pension scheme, and with an increase in personal contributions, as well as company contributions.

**Q152 Paul Blomfield:** Can I ask a different question on pensions? Is it correct that the Cadbury pension scheme contained a clause that prevented you from closing it down without incurring prohibitive compensation?

**Trevor Bond:** It is certainly true that the Cadbury pension trust deed goes back many, many years. One of the provisions there prevented us from making the changes that all parties agreed we needed to change. We have reached an agreement whereby exactly what I have said has taken place, and we have still honoured the letter of the law. There was a particular nuance in the trust deed. But together we have been able to find a way to get what are still very attractive benefits for our members, as well as a slightly more affordable pension scheme for our company.

**Q153 Paul Blomfield:** Were you aware of that clause, that provision?

**Trevor Bond:** I certainly was.

**Q154 Paul Blomfield:** Mr Firestone?

**Marc Firestone:** It was, as I recall, confidential.

**Q155 Paul Blomfield:** Wouldn't you see that as a fairly fundamental part of a due diligence investigation? You are saying that a very significant commitment in relation to the pension scheme was not spotted.

**Trevor Bond:** No, sorry, Mr Blomfield. It was a technical part of the trustee deed. As Marc has said, during the takeover process, Kraft colleagues had meetings with the trustees, as you would expect. Since the acquisition we have honoured the commitment to underwrite the benefits, to put new money into the fund and to develop a nine-year funding plan. There was nothing untoward about that. There was just a particular nuance in that trust deed, but conversations had taken place with the trustees of the pension scheme before the acquisition.

**Q156 Paul Blomfield:** That nuance, as you describe it, was a fairly significant legal commitment, wasn't it?

**Trevor Bond:** I do not think so. All I can say is, if we look back to the facts and the substance, the members still have a very attractive pension scheme that Kraft is underwriting. It compares incredibly well to virtually any other company in the UK.

**Q157 Paul Blomfield:** Was that legal requirement influential in your thinking in terms of the final settlement on pensions? Might you have looked, as other companies have, at closing down your final salary scheme had it not been for that requirement?

**Trevor Bond:** Just to be clear, let me repeat: we in Cadbury were going through the process of modernising our pension scheme. What Kraft have done is underwritten and supported us in that implementation.

**Q158 Mr Binley:** Could I have a supplementary? This really does concern me. Would not the details of the pension scheme be in the public domain? I am just wondering what your due diligence people did for \$40,000,000. I am just amazed. Are you very concerned about that now, Mr Firestone, knowing that all the things that you have found out since were not discovered during the due diligence process?

**Marc Firestone:** Just so that there is no confusion, because we are talking about several different things at the moment, Kraft has fully honoured its pledge to this Committee regarding pensions. Just so that we are clear about that.

**Q159 Chair:** We are not disputing that.

**Marc Firestone:** I just wanted to make sure that was clear, because that was Mr Blomfield's question. Your question is, what was the scope of due diligence? We did as much as we believed possible—sir, allow me, please—given the context of the transaction. Companies provide a fair amount of public information. They have annual statements of accounts that they have to file, and so on. But, as we have said—and I know that you are a businessman—not everything a company does is publicly available. We looked at what was publicly available.

It was a transaction that was not a negotiated transaction, where we had due diligence. By the way,

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I would remind the Committee that a negotiated transaction is what we had hoped would happen originally. However, it was not a negotiated transaction. The board made a unanimous recommendation the night before the deal. That was the first time that we had a recommendation from the Cadbury board. There was a lot of information that we had, but as with any \$9 billion, or £6.5 billion multinational, there is a lot of information to which we did not have access before the transaction took place. You know better than I that that is a fact. There are certain pieces of information that are just not on the public record.

**Q160 Mr Binley:** I would want some money back, Mr Firestone.

**Marc Firestone:** You would want some money back?

**Q161 Chair:** I cannot help feeling that you did not get value for money from whoever conducted the due diligence operation.

**Marc Firestone:** I believe that we did what we could do, given the context of the transaction.

**Q162 Rebecca Harris:** I thought that you might like an opportunity to talk about your R and D in this country. When you were last at this Committee, you were fairly bullish about the prospect of keeping Reading, and not quite so bullish but still positive about Bournville as well, and how important it was. You are obviously quite keen to talk about the investment in 50 jobs at Bournville. I wondered whether you would like to be able to extend your commitments to R and D in this country, perhaps, from when you last spoke to the Committee?

**Nick Bunker:** Do you mind if I answer? R and D is a huge and important part of our business. Over 10% of our staff are in R and D on three sites: in Reading, in Bournville and in Banbury. We are privileged in the UK, in that I think that Kraft has six centres of excellence around the world for research and development, and two of them are in the United Kingdom. I think that it is a great reflection on our business, and there is a commitment there to those R and D facilities. We have one in Banbury, which is about 160 people who do research and development on coffee. We have a Science Centre in Reading, which is about 250 people, and then we have our research and development for chocolate in Bournville. These places are where it all happens. They are the nerve centre of our chocolate business. Products that you see in the market today, whether it be Cadbury Wishes or Kenco Millicano, all originate in these research and development centres. We are very excited about that.

The recruitment that we are doing, of about 50 heads in Bournville, is on top of capital investment that we make in these sites as well. This is where we invest in pilot plants, in new equipment, and so on. In these R and D facilities we have mini factories, so we set up mini lines to produce small quantities of product to work on before we scale up to full production. There is quite a significant capital investment in these plants as well. It is a very important part of our business, and we will to continue to invest there.

Making a commitment to put a global research centre in a country or a location is not a short-term decision, because they are very highly skilled jobs, there is a lot of equipment and a lot of investment. It is a big vote of confidence both in Banbury and in Bournville that we have two of those centres in the UK.

**Q163 Rebecca Harris:** I would like to know a bit more about what you think of the future, but you think there will be no negative impact, no job losses in either of those centres envisaged in the next couple of years?

**Nick Bunker:** We are recruiting in both centres at the moment, in Reading and in Bournville. We are recruiting.

**Q164 Rebecca Harris:** I wanted to ask you about the Chocolate Innovation Team. I would like to know a little more about what you do, because I have an image in my mind of these wonderful Oompa-Loompa running around with molten chocolate, which is lovely, but I would just like to know a bit more about what you are actually doing in these centres, and what you are planning to do. Are you talking about taking Cadbury's existing concepts and ideas and moulding them to the international chocolate tastes for other Kraft products, or are you working on other ranges?

**Nick Bunker:** May I give you a couple of examples? I will give you a coffee example, and then a chocolate example. I apologise, because if I had hair, it would not be green either, so I could never be an Oompa-Loompa. In Banbury, we developed over many years a hot drinks delivery system called Tassimo, which some of you may have heard of and some of you may have in your household. That has many patents around it, and it was developed in Banbury—the machinery, but then also the way it dispenses hot drinks, which may be coffee or hot chocolate. You can obviously guess what our next hot chocolate offering is going to be, through the Tassimo range, which has been developed in conjunction between Banbury and Bournville. In Bournville it has been the soul of the Cadbury research and development business for years. We have some great examples that are on the market today. We have things like Cadbury Bliss, which was launched last year. We have our Creme Eggs, and we also have things called Screme Eggs.

**Rebecca Harris:** You found the opportunity for product placement.

**Nick Bunker:** I will give you one example. In R and D terms it is early days. There is quite a lead time on producing new technology and new products, as you will understand. Just in this last year we filed 28 patents in the UK across those research centres. An example of bringing technology together is that in Europe we sell a brand called Milka. We sell a little bit in the UK, but it is a very big brand in Continental Europe. It has resealable packaging. It may not sound very exciting, but technologically it is quite hard to achieve. We are bringing that technology to Cadbury later this year, so our bars of Cadbury Dairy Milk will be resealable. Those are just two examples of the work that goes on in these places. It is not just product

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development. It is packaging development and technology as well.

**Trevor Bond:** But there are still short men with sticks and chocolate.

**Q165 Rebecca Harris:** I would be very disappointed if there were not. You have referred to both of these now as Centres of Excellence for Kraft. I do not want to sound as though I am seeking to beggar my neighbour in any way, but is it possible that you will close other centres in other parts of the world in favour of developing these?

**Nick Bunker:** The coffee side has been in Banbury for many years. On chocolate, when the decision was made to establish a research and development centre in Bournville, certain roles were removed from another centre in Munich. Overall, however, the investment increased in our centre in Bournville, which is why we are recruiting and have those vacancies today, which are proving challenging to fill.

**Trevor Bond:** One thing that might be of interest to the Committee in terms of these 50 roles—I appreciate we have talked about them—is that it is very important to us that we have freedom of labour movement. We are a multinational business. It is very difficult at the moment for us. We would typically bring people in, train some people at this centre of excellence, and then move them to other parts of the world. Where the Government is going on immigration, we believe that it will cause some issues for us in the short term.

**Rebecca Harris:** It is something that the Committee has heard from other people.

**Chair:** I assure you that we will be dealing with that, yes.

**Rebecca Harris:** We are definitely taking an interest in that. Thank you.

**Trevor Bond:** Thank you.

**Q166 Chair:** Could I move on to issues of corporate responsibility and the environment, some of which you have touched on already? First of all Fairtrade certification: you have extended to Canada, Australia and New Zealand, and I believe that Green & Black's has achieved its switch to Fairtrade ahead of schedule. Do you have any further plans for extension?

**Nick Bunker:** I will talk from a UK perspective, and then pass over to my colleagues. One of the areas of cultural similarity is our approaches to sustainability. Kraft started working with the Rainforest Alliance on coffee in 2003. Cadbury established a relationship with Fairtrade in 2008. We are proud to be the world's biggest buyer of cocoa and coffee from the Rainforest Alliance. You may have seen that we have just finished a very successful Fairtrade Fortnight here in the UK. Fairtrade announced their results last week: sales of over £1 billion in the UK, of which the biggest contributor was chocolate. The decision and the partnership between Cadbury and Fairtrade has grown Fairtrade enormously in the UK. It resonates with our consumers, just as the Rainforest Alliance certification does with our coffee.

Last year I visited Ghana with Harriet Lamb, who you may know is the Executive Director of Fairtrade here in the UK. I visited Ghana with her for two reasons.

One was to see the great work that the partnership with Fairtrade produces. The 11% that we referred to earlier, in terms of the growth of Cadbury Dairy Milk, relates to about 300,000,000 bars of chocolate. The premium that Fairtrade received as a result of that was about £2,300,000. That £2,300,000 was invested in communities in Ghana. It was a privilege to be able to see the difference that investment makes. In addition, there is a scheme called the Cadbury Cocoa Partnership, which is investing £45,000,000 over 10 years, the bulk of it in Ghana but some in other countries. I was able to see the good work that partnership is doing as well. We are continuing at full steam on our sustainability emphasis. It is important that a company of our scale can actually bring scale to both schemes, whether it be the Rainforest Alliance scheme or the Fairtrade scheme.

**Q167 Chair:** Could I come to the issue of the Fry Club? Obviously this was wrapped up with the Somerdale issue. What progress have you made in rebuilding it?

**Nick Bunker:** Sorry, I will answer again. As I mentioned earlier, we are in the process of starting to market the site. As the site is marketed, and we have discussions with developers and the planning authorities, if it becomes necessary to relocate the Fry Club, we will relocate. We will build a new club to the specification that has been agreed, within the existing site, and we will abide by that commitment.

**Q168 Chair:** With whom will you agree the specification?

**Nick Bunker:** It has been agreed with the Fry Club. There is a document with the detailed specification on it.

**Q169 Chair:** A slightly broader question: can you confirm Kraft's commitment to maintaining Cadbury's financial contribution to the Cadbury Foundation?

**Marc Firestone:** Yes, absolutely. The two companies have been working very closely together. You asked about corporate responsibility and corporate activities. I think that we are very pleased with our joint work under the broadest framework, addressing the worldwide questions of hunger and nutrition. As Nick said, we are working closely together on sustainable agriculture, and we have also been maintaining the contributions that I mentioned last year—I think it was for a three-year period—to the Cadbury Foundation. It is very important, obviously, to the UK but also to us. I would also add that since the Committee last year, we have had significant volunteering by the many thousands of employees in the country in the communities around Birmingham and other places, which contributes to the local environment there.

**Nick Bunker:** Indeed, and just to add a statistic there, in October last year, over 1,100 of our employees volunteered in a single week in our various locations around the UK.

**Q170 Chair:** Does Kraft intend to keep Cadbury's community investment goals: 1% of its pre-tax profit for community investment year on year?

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**Nick Bunker:** I am pleased to be able to say that the value of our community investment in the UK and Ireland in 2010 was around £3,000,000. That is a significant increase from 2009. As we go forward, in terms of the structure that Marc described, we will not be in a position to disclose our profits in the UK. What I can give absolute emphasis on is that our community programmes, through volunteering, through donations—we provide £100,000 to Young Enterprise—will all continue. As I said, our combined scale brings a bigger opportunity.

We are the proud sponsors, as you know, of London 2012, and we have four elements to our Olympic programme. We have a consumer element, which obviously is to excite our consumers about the Games, about team GB, about playing a sport and competing. We have a customer element, which works with our customers. We have an internal colleague element, but more importantly we have a community element. Through that, we are investing another £3,000,000 over three years with a partner called Groundwork, to establish volunteers in underprivileged communities.

**Q171 Ian Murray:** Just before we close the session, I would like a sentence from each of our guests. I am very grateful to have heard you this morning. The former Cadbury Chief Executive Officer said today in *The Times*, in response to this hearing happening this morning, that “a year on I feel the hollow sense of a great company lost”. Would you just give us a one-sentence response to that particular comment?

**Trevor Bond:** I have known Todd for many years. I read the whole article, as well, and what he was talking about was how he was the Chief Executive of a successful British business, and that successful British business is now part of a successful global business. A year on, I have certainly had many changes in my life as well, but I still feel proud to work for a business that has changed, for sure. Certainly I am proud to work for Kraft Foods.

**Q172 Chair:** If you wish to add to that, feel free.

**Nick Bunker:** I am sorry, I thought you asked for a statement from each of us.

**Q173 Ian Murray:** Yes.

**Nick Bunker:** From a UK perspective, I am exceptionally pleased to see that the two companies have come together with a shared sense of commitment and values. We, as our combined business, are very proud of that.

**Q174 Chair:** Mr Firestone, do you have anything to add?

**Marc Firestone:** It is hard to add to the—

**Q175 Ian Murray:** Given that you agree fundamentally with your current CEO, who is obviously not here today, what is your comment on the previous CEO’s sentence?

**Marc Firestone:** Speaking personally, I understand, respect and accept the responsibility that Kraft Foods, Inc assumed in this transaction. I believe that we have been faithful stewards of the heritage to which many people referred, and I fully intend to do what I can to ensure that that continues.

**Q176 Chair:** Can I just conclude with a quote from your corporate philosophy, a statement that you have made in the past: “At Kraft we inspire trust. We are open and inclusive. We tell it like it is, and we believe we can make a delicious difference everywhere.” Do you feel that in your first year as Kraft Cadbury you have lived up to that corporate commitment?

**Marc Firestone:** Sir, I think that when one examines the facts of what we have done, and looks at the full extent to which we honoured the pledges we made, and the sensitivity we have shown to our colleagues and other people, and at the business results that we have achieved in the UK, I would answer “yes”.

**Q177 Chair:** Then why do you think there seems to be such a negative perception of Kraft in this country at the moment?

**Marc Firestone:** I can only speak from a personal perspective. I do not know how widespread the perception is, but clearly we acquired a much-loved British company. We did so in the midst of a very complex electoral season. We did so in a manner that engendered a vigorous takeover defence by Cadbury. We did so in a way that we thought was prudent and exercised all due care possible under the circumstances, but certainly, as we discussed earlier, the question of Somerdale set off an inflammatory reaction. We have worked very hard in the succeeding 12 months to overcome some of that negativity, and we will continue to do so through our actions. There is no amount of rhetoric, corporate advertising or public relations that can overcome the facts of what we are doing and will continue to do.

**Chair:** Could I just put it to you that obviously you feel you have done a very good job over the last year, and that a change in public perception might come about if the Chief Executive of this company came and proclaimed that when given the opportunity to, instead of delegating that to junior executives?

**Mr Binley:** Senior junior executives.

**Chair:** Well, junior to the Chief Executive. Can I thank you, gentlemen, for attending. You have been given a very thorough session, and thank you for responding. As I say, we will continue to monitor the situation very closely and we may well call you again. May I make it quite clear, however, that from our perspective the sole concern of this Committee is the future of this company and the employees in it, and the contribution that it can make to UK plc?

**Marc Firestone:** Thank you, Mr Chairman and members of the Committee.



## Written evidence

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### **Letter to Irene Rosenfeld, Chief Operating Officer and Chairman, Kraft Foods Inc., from the Chair of the Committee**

I am writing to you in my capacity as the Chairman of the House of Commons Business, Innovation and Skills Committee.

In the previous parliament, the Business, Innovation and Skills Committee conducted an inquiry into Kraft's takeover of Cadbury. During that inquiry, your staff gave that Committee a series of undertakings regarding the future of Cadbury. My Committee intends to revisit those undertakings and to get a clear understanding of the implications—for both the company and the UK economy—of your recent announcement to move Cadbury's headquarters functions out of the country.

I understand that you were invited to represent Kraft at the last inquiry, but declined to do so. I would like to avoid such an outcome for this inquiry. I am therefore writing now to invite you to give evidence. The time and date of the meeting has yet to be decided. I would prefer it to take place in the early part of next year but we will be flexible in order to accommodate you.

It would be helpful if you could inform me of any dates which you would be able to attend or any dates which would coincide with you visiting the United Kingdom in the course of your work.

I look forward to hearing from you in the near future.

*16 December 2010*

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### **Letter to the Chair of the Committee from Marc S Firestone, Executive Vice President, Corporate & Legal Affairs and General Counsel**

At Irene Rosenfeld's request, I am responding to your letter of 16 December 2010.

Kraft Foods is of course pleased to provide an update to the Business, Innovation and Skills Committee on progress since my colleagues and I first appeared before the Committee in March 2010.

Ms Rosenfeld will ensure that the most appropriate people from Kraft Foods are available to supply the information you have requested. In that regard, because I gave the undertakings in March and report directly to Ms Rosenfeld as a member of Kraft Foods' executive team, she has asked that I lead the team that will be available to appear before the Committee. The team will include senior executives from Kraft Foods Europe and from Kraft Foods UK and Ireland. Ms Rosenfeld believes that this team combines the seniority and knowledge needed to answer questions authoritatively and to the level of detail that will be most helpful to the Committee's deliberations.

To make the necessary arrangements to appear before the Committee, I will be in touch with the Committee Clerk in the next few days.

*10 January 2011*

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### **Letter to Irene Rosenfeld, Chief Operating Officer and Chairman, Kraft Foods Inc., from the Chair of the Committee**

I am writing in response to Marc Firestone's letter of 10 January regarding my invitation to you to appear before my Committee.

I had hoped that you would have seen this as an opportunity to demonstrate, in person, your company's commitment to Cadbury and to its heritage. Therefore, you will not be surprised to read that I am extremely disappointed that you felt unable to accept my invitation.

As you know, the takeover of Cadbury by Kraft was badly received in the United Kingdom and there was a high degree of scepticism over the motive for the takeover, the way in which it was conducted and Kraft's future strategy of the company. That scepticism remains and your refusal to attend a Committee of the House of Commons will do nothing to change that position.

Your letter set out the executive functions of Mr Firestone and the fact that he is authorised to speak on behalf of your company. Indeed, he did so when he gave a series of undertakings to my predecessor Committee. However, he cannot offer the level of authority that your appearance would provide.

Your appearance would send the strongest possible signal of Kraft's commitment to Cadbury, and would go some way to repairing the damage caused by the manner of the takeover.

I therefore ask you to reconsider your refusal to attend.

24 January 2011

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**Letter to the Chair of the Committee from Irene Rosenfeld, Chief Operating Officer and Chairman, Kraft Foods Inc.**

Thank you for your letter of 24 January. I certainly share your desire to reinforce Kraft's commitment to Cadbury and its heritage with the Committee. And, as Marc Firestone said in his response on my behalf, Kraft Foods would be pleased to provide an update to the Committee on the progress we have made over the past 12 months and our plans for the future.

As you know, we have proposed a team of key senior executives from across Kraft Foods, led by Marc, who is our EVP, Corporate & Legal Affairs and General Counsel. I believe it is essential that the individuals closest to the market and to our business plans be the appropriate representatives before the Committee. This team brings together the seniority and knowledge that we believe will be most helpful to the Committee in looking into the matters under consideration. By including Marc and Trevor Bond, as well as Nick Bunker, we are providing continuity from the previous session with the Committee and proposing a group that is able to speak knowledgeably about our current and future plans from both a Kraft Foods and a Cadbury perspective.

I know that Marc and his team are in close contact with the Committee to make the necessary arrangements for the meeting.

28 January 2010

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**Letter to Irene Rosenfeld, Chief Operating Officer and Chairman, Kraft Foods Inc., from the Chair of the Committee**

My Committee considered your letter dated 28 January at its meeting on Tuesday. It was profoundly disappointed with your response and your lack of willingness to accept our invitation for you to give evidence in person.

As the head of a major international company with significant interests in this country we expected a more accommodating response. It was not lost on us that foreign Chief Executives of multinational companies have appeared before your congressional committees; we had hoped that you would have taken a similar approach to our invitation. I have to say that your absence will not be interpreted in a positive light in this country.

I appreciate that busy schedules can often be barriers to holding such meetings and this may be why you do not feel able to appear. Committees of the House of Commons have the facility to hold hearings via video link. Although this is not ideal, it does offer a solution to problems over availability for witnesses from overseas. I would be happy to offer this as a compromise should your diary commitments not allow you to come to Parliament in person.

I look forward to your response.

3 February 2011

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**Letter to the Chair of the Committee from Marc S Firestone, Executive Vice President, Corporate & Legal Affairs and General Counsel**

As you know, Kraft Foods recently published a progress report on our activities in the UK over the last year, and we have sent copies to the Select Committee. Amongst other things, this report shows that we have met or exceeded the commitments we made to the Committee last year. Indeed, any objective assessment reveals that our acquisition of Cadbury is a success story.

Nevertheless, we respect the fact that the Committee would like to hear directly from Kraft about our activities in the UK. Accordingly, and further to correspondence and discussions with the Committee, my colleagues and I are scheduled to appear before the Committee on 15 March.

We were therefore disappointed to receive a third request that Irene Rosenfeld appear in person in place of the company representatives who testified last year and who are best placed to assist the Committee in its inquiry. As Ms Rosenfeld has confirmed to you in writing, Mr Bond, Mr Bunker and I have the seniority and knowledge to answer any questions the Committee might wish to pose about Kraft's business in the UK.

Given our understanding that the Committee's purpose is to enquire into relevant facts, the repeated demands for Ms Rosenfeld to appear in person are regrettable. Based on the experience of last year's hearing and recent comments by some Committee members, there seems to be a desire to have a "star witness" towards whom ill-founded allegations and insults can be made, with little or no attempt to discuss the facts and look rationally into the evidence. Indeed, a review of the transcript from last year's hearing shows that it went far beyond spirited debate to a remarkable level of rancor. (For example, please see Questions 189 and 199.)

Your letter refers to instances in which corporate leaders have testified before the US Congress. As you will know, however, these hearings have typically involved environmental disasters, massive accounting frauds, and deadly product liability scandals, rather than, as in this case, an acquisition that ultimately received the Cadbury Board's unanimous recommendation and that, as our report shows, has already delivered many positive outcomes.

Kraft Foods has the greatest respect for the House of Commons and will continue to cooperate fully in providing relevant information to the Committee. Far from "snubbing" the Committee, Ms Rosenfeld has carefully chosen the senior executives she knows to be best qualified to testify about Kraft Foods. To that end, as discussed with the Committee Clerk, my colleagues and I will be present on 15 March to answer the Committee's questions on everything from our R&D facilities to our management structure. We will be able to show you that Kraft Foods is honoring its commitments and playing an important role in the British economy.

9 February 2011

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### Written evidence from Kraft

#### UPDATE ON PROGRESS MADE SINCE KRAFT FOODS ACQUIRED CADBURY

##### INTRODUCTION

1. On 2 February 2010, Kraft Foods acquired control of Cadbury plc through a tender process that received the unanimous approval of the Cadbury Board of Directors. One year on, Kraft Foods would like to take this opportunity to provide an update on the progress it has made in integrating its businesses in the UK and around the world and on the commitments it made to the UK at the Business, Innovation and Skills Committee last year.

2. Outlined below are key points regarding our progress over the past 12 months, showing that we have fully met all, and in many instances exceeded, the commitments we made.

3. In summary, we said that we would not change Cadbury's brand; that we would continue to make *Cadbury Dairy Milk* and other products in the UK and continue to manage brands from the UK; that we would honour Cadbury's previous commitments to staff at the Somerdale factory; that we would make no further compulsory redundancies of manufacturing employees in the UK for at least two years; that we would honour Cadbury's pension arrangements; and that we would maintain Cadbury's existing commitments to Fairtrade, local community investment and sponsorship of London 2012.

4. We have honoured all of these commitments as well as others that we made to the Committee. In addition, we have increased investment in research and development in the UK, grown sales in the Cadbury business and contributed to the UK economy. Further detail of these developments, and others, is below.

##### BUSINESS PERFORMANCE

5. While we are not able to disclose exact figures ahead of the release of our full-year results on 10 February, we can say that, through the third quarter, 2010 was a successful year for Cadbury. The combined business performed well despite a difficult economic climate. In the UK for example, Cadbury's Easter sales were up 13% over 2009, and we have sold more than 300 million bars of Fairtrade *Cadbury Dairy Milk* since certification in 2009.

6. In addition, while we are not able to discuss specifics ahead of our results being released on 10 February, based on results through the third quarter, we were pleased with the company's overall performance in the UK and Europe. We believe that this combined success reflects our taking the "best of both" as well as the quality of integration and teamwork and our investments in the business during these nine months. We continue to plan for the future, including for new product development and launches; developing our London 2012 sponsorship activation; and continuing to invest in research and development.

##### CORPORATE STRUCTURE AND INTEGRATION

7. Kraft Foods has operated in the UK and Ireland for more than 85 years. Prior to our merger with Cadbury, Kraft Foods employed around 1,500 people in the UK; that number has now grown to nearly 7,000 people in the UK and Ireland, including 5,000 people in manufacturing across six sites in the UK and three in Ireland. Our focus is on investing to grow and on developing our people and our leading brands. We have created two global centres for research and development in the UK: one for chocolate in Bournville, which combines Cadbury's rich history in chocolate development with Kraft's successful heritage chocolate brands, and one for coffee in Banbury. We will also continue to operate the Cadbury research facility, Reading Scientific Services, which will serve the global Kraft Foods business. We believe this continued investment in high quality R&D jobs is good news both for the UK food manufacturing sector and for the economy as a whole. In total we have created 50 new expert positions at Bournville, as a result of our investment.

8. We continue to integrate the company into our global operations to create the world's leading confectionery company by building on the strengths of both Kraft Foods and Cadbury. An important part of this integration

is our European headquarters, which have been in Switzerland since 2008 (as was Cadbury's European operation for a number of years before the acquisition). Many of our main brands, such as *Toblerone*, *Milka* and *Philadelphia*, are sold across European markets, and so our business is structured to support strategic decision-making for Europe as a whole, with a pan-European management team in Zurich. As we have always said we would, we have integrated our two European operations to ensure their strength as part of the global business. By way of indication, Kraft Foods' European business is now bigger than Cadbury's global business at the time of the merger.

9. There has been speculation in the media about the impact of this structure on the tax paid by Kraft Foods and Cadbury. Kraft Foods and Cadbury have always paid their taxes. The reality is that we expect the actual tax paid by the businesses in the UK before and after the acquisition to be roughly the same. Moreover, as a major employer and with significant investments in the UK, Kraft Foods makes a major contribution to the UK economy and to the Exchequer, through corporate taxes, VAT on product sales, employee payments and other streams, all of which generate revenue for the UK Exchequer. We also work with and support a large network of suppliers and customers that in turn bring additional value to the UK economy. Overall, we believe we can best contribute to the UK economy over the long term by being competitive and successful so that we can secure jobs, drive economic growth and help build confidence in the UK as a place to invest.

10. Our systematic approach to creating value all the way through this process—from our suppliers and producers, through the manufacturing process, to our marketing and sales interaction with the consumer—helps to maximise our growth and our contribution to the economy.

#### UK WORKFORCE

11. The integration of the Kraft Foods and Cadbury businesses is proceeding according to plan. We have retained a great deal (ie the majority) of the talent from the Cadbury workforce—approximately one third of Kraft's top 400 executives today are originally from the Cadbury team. The proportion of the UK management team from Cadbury is even higher. Overall, we are proud of how well Kraft Foods and Cadbury people have come together as a single team with a shared sense of commitment and values.

12. We have been operating in a challenging economic context over the past 12 months. The West Midlands has been particularly hard hit by the economic situation, resulting in an unemployment rate of 9.9% in the region by the end of 2010. The number of unemployed people in the West Midlands rose by 48,000 in the three months to November 2010. Our actions to develop Bournville into our global centre of excellence for chocolate research and development, and to serve as one of our two main UK offices, are set against this trend. In addition, we are honouring our promise that there would be no additional closures of manufacturing facilities in the United Kingdom for a two-year period (running from 16 March 2010) and that there would be no further compulsory redundancies amongst manufacturing employees in the UK during the same period.

13. Kraft Foods recognises the vital role that the food industry plays in the UK economy. Indeed, it is the UK's largest manufacturing sector, and we are proud of our leading role in the industry, both as an investor and as a major employer. Our workforce is central to our success.

14. Kraft Foods devotes a good deal of attention to developing our staff and to training young people through our graduate recruitment and apprenticeship programmes. Kraft Foods and Cadbury both operated graduate recruitment programmes, which we expect to maintain at the same level in the combined company. In 2010 we recruited apprentices at five of our sites in the UK, and we are keen to ensure that these apprentices receive the best possible on-the-job training.

#### BRAND MANAGEMENT

15. At Kraft Foods, we are proud of the heritage and range of great brands we have within our portfolio. Our UK chocolate brands include *Cadbury Dairy Milk*, *Crème Eggs*, *Flake*, *Green & Black's*, *Milka*, *Toblerone* and *Wispa*. Other leading Kraft Foods brands in the UK include *Kenco* and *Carte Noire* coffee, *Philadelphia* cream cheese, and *Oreo*, *Ritz* and *Belvita* biscuits. Our brands are leaders in the UK market, enjoying a strong consumer following. Brand stewardship has long been, and remains, key to our success. This is reflected in our continuing involvement, investment and commitment to the UK as a whole.

16. We fully recognise the strength of the Cadbury brand and its well-loved products. We will not replace the iconic Cadbury logo on our products. The UK continues to receive royalties from the use of the Cadbury brand name overseas, and we remain proud recipients of the Royal Warrant. In Bournville, the Cadbury name and flags will remain prominent fixtures on the exterior and interior of our offices, just as they have for decades, and the Uxbridge headquarters will remain "Cadbury House". Our visitor centre at Cadbury World is one of the most popular tourist attractions in the Midlands.

17. We are committed to our Cadbury brands in the UK, from manufacturing through to marketing and sales. The great majority of the Cadbury product we sell in the UK and Ireland is made in the UK and Ireland, and we have over 100 of our UK-focused marketing team working in the UK (approximately 98%). The quality and recipe of Cadbury chocolate are unchanged, and we continue to support Cadbury's relationships with UK dairy farmers who supply the famous "glass and a half" of milk.

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## CAPITAL INVESTMENT AND RESEARCH AND DEVELOPMENT

18. As we pledged to the Committee last year, we have built on both Cadbury's and Kraft Foods' strong history of innovation by strengthening our investment in UK research and our global centres for development in Reading, Banbury and Bournville.

19. We are making a £15.8 million investment in our coffee facility in Banbury for two new packing lines and overall process improvement.

20. Last May we announced that Bournville, following a \$216 million (£135 million) investment programme over the last five years, will be Kraft Foods' global centre of excellence for chocolate research and development. The centre of excellence will drive new product development, new technologies and best practices for such beloved chocolate brands as *Cadbury Dairy Milk*, *Milka*, *Toblerone*, *Côte d'Or*, *Terry's*, *Flake*, *Crème Egg*, *Green & Black's*, *Suchard*, *Freia*, *Marabou* and *Lacta*. Bournville will drive innovation for the Kraft Foods chocolate business all over the world.

21. We have met and exceeded our specific commitment to maintain Cadbury's R&D sites in the UK. Cadbury's existing science centre in Reading will become a global science and technology centre serving Kraft Foods worldwide. Both the global centres in Bournville and Reading are in addition to Kraft Foods' existing global centre of excellence for coffee, which has been in Banbury for more than forty years.

## SOMERDALE

22. We have continued to support employees affected by the closure of the Somerdale plant, as Cadbury had planned. For example, we have used a comprehensive range of measures, including appropriate redundancy packages and advice on seeking new employment or exploring other options, to assist those who have lost their jobs. All employees under notice have been offered one-to-one meetings on pensions, personalised counselling with an independent financial advisor, on-site job search support and access to money for retraining. We have also organised a Jobcentre on site and have provided significant re-training opportunities for staff.

23. A number of employees have had support from Business Link to help them set up their own business; 200 have registered with the outplacement agency and 60 have now found other employment; around 50 are retiring or taking career breaks; 20 are relocating to other Kraft sites. The agency has contacted over 600 local employers to source jobs, followed up leads in newspapers and provided individual searches for employees to identify suitable opportunities.

24. The factory has recently stopped production, and we have been working closely with local authorities to come up with a blueprint for the future use of the site. This will provide both housing and employment opportunities. We will help to preserve the positive contribution of the Somerdale site to the Keynsham community after the factory's closure by rebuilding the Fry Club at Somerdale.

## CORPORATE RESPONSIBILITY AND THE ENVIRONMENT

### *Fairtrade and Rainforest Alliance*

25. A key part of our ongoing commitment to strengthening our business is to continue to build our relationship with the Fairtrade Foundation. Our commitment is represented by certification on *Cadbury Dairy Milk* which has grown to cover the UK, Ireland, New Zealand, Australia and Canada. By the end of this year we will also be able to include the entire *Green & Black's* range in Fairtrade certification. We also continue to work closely with and support the Rainforest Alliance for other chocolate brands in our portfolio, such as *Côte d'Or*, and are looking for opportunities to synchronise our work across the two partnerships and activities to maximise the effectiveness of both programmes.

26. To reinforce our support for Fairtrade and the Cadbury Cocoa Partnership, Nick Bunker, President of Kraft Foods UK and Ireland, visited Ghana in Autumn 2010 with Harriet Lamb of the Fairtrade Foundation and Malcolm Bruce MP, Chair of the International Development Committee, to see at first hand the importance of the work being done and the value of our continued support at the grassroots level. A further working field trip in November, led by our European Corporate Affairs Director, Sara Sizer, brought together at a community level the partnership programmes supported by Kraft Foods including the Cadbury Cocoa Partnership, Fairtrade Foundation, Rainforest Alliance and the Gates Foundation / World Cocoa Foundation Cocoa Livelihoods Programme.

27. Kraft Foods globally is also the largest buyer of coffee and cocoa beans from Rainforest Alliance Certified™ farms; in the UK, all the coffee beans we buy for the Kenco coffee range are from Rainforest Alliance Certified™ farms. In 2010, we bought about 50,000 metric tons of coffee for our global business from Rainforest Alliance Certified™ farms, compared with 34,000 metric tons (more than 75 million pounds) in 2009 which was, in turn, a 15% increase over 2008. Reinforcing our involvement in this area, Nick Bunker is also chair of the UK Food and Drink Federation's committee on Sustainability.

## ENVIRONMENT

28. We continue to make progress in reducing our CO2 emissions to achieve our target of reducing emissions by 25% between 2005 and 2011. This is consistent with Cadbury's longer term ambition to reduce CO2 emissions by 50% by 2020. As from 2011 we will have a common baseline that will allow us to pursue ambitious CO2 emission reductions as a combined business and will soon announce our goals beyond 2011. Kraft Foods has actively participated in the Carbon Disclosure Project (CDP) since 2005 and was named in the 2010 Global CDP Leadership Index. The Carbon Disclosure Leadership Index recognises companies that demonstrate good internal data management practices for understanding greenhouse gas emissions, including energy use. Companies that appear on this index have also demonstrated clear consideration of how climate change impacts their business.

## HEALTH AND WELL-BEING

29. At Kraft Foods, we help our consumers to make informed decisions about what they eat by providing nutritional labelling on all of our products in all markets—whether this is required or not. In the UK all our products clearly display nutritional guideline daily amounts. Our portfolio includes many better choice products and we are constantly investigating how further reformulation can be undertaken to reduce levels of fat, salt and calories. We were part of the first group of companies to introduce voluntary front-of-pack GDA nutrition labelling in the UK, helping consumers to make informed choices, and since 2004 we have supported the health4schools programme, an award-winning initiative promoting healthy diet, sustainability and active play to over 100 schools in the Gloucestershire area. We have recently announced that we will be making a similar investment over the next three years in Birmingham.

## LONDON 2012

30. Kraft Foods is delivering Cadbury's sponsorship of London 2012 and is pleased with the progress over the last year. In August 2010 we launched Spots v Stripes as part of Cadbury's official partnership with the London 2012 Olympic and Paralympic Games. This innovative outreach programme aims to engage people across the country in the spirit of the Games and strengthen communities by building a lasting legacy of play.

31. Since its launch, the Spots v Stripes programme has encouraged over 12,500 people to play games at more than 200 Spots v Stripes community events across the UK and Ireland, while over one million people have logged on to the official Spots v Stripes website to see how they can get involved. 2011 will see even greater support for Spots v Stripes, with further backing from brands such as *Cadbury Dairy Milk*.

32. As part of our community programme we are working with the charity Groundwork to put in place a national network of Spots v Stripes Community Games Coordinators, with a target to recruit 2,000 volunteers. We are also taking forward plans to invest in community spaces in Birmingham, Sheffield, Marlbrook, Chirk, Dublin, Uxbridge, Reading, Crediton, and Hackney to create areas for people to play games. In addition managers from Kraft Foods have worked with Paralympic teams to share strategic and leadership support. Through these activities Spots v Stripes will help to deliver a lasting legacy for the London 2012 Olympic and Paralympic Games by building stronger communities through play.

## WORKING WITH OUR COMMUNITIES

### *Cadbury Foundation*

33. We have continued to fund the Cadbury Foundation, which was first established in 1935 by Cadbury Brothers Limited. At a very positive and constructive meeting with the Foundation last March, we agreed to provide £750,000 a year as part of a three-year programme.

## COMMUNITY INVESTMENTS

34. Kraft Foods has no plans to change Cadbury's community investment goal, through volunteering or direct funding and we are on track to exceed this target. The percentage of Cadbury employees in the UK & Ireland who volunteered in 2010 increased to 34%, from 29% in 2009, and the value of community investment rose to £1.9 million, from £1.4 million in 2009.

35. Every year, Kraft Foods employees take part in a global community service event called Delicious Difference Week. In 2010 almost 1,150 Kraft Foods employees in the UK took part in some form of volunteering, offering over 5,500 hours of their combined time and benefitting an estimated 6,425 people.

36. More recently, staff spent an additional 500 hours volunteering to help with the physical regeneration of the community spaces near to its UK sites as part of Cadbury's Spots v Stripes community programme, and such activities will continue in 2011.

37. We have also announced plans to make a substantial investment over the next three years to bring Kraft Foods' innovative health4schools education programme to schools in Birmingham. We have run this programme in schools in Gloucestershire since 2004, working in conjunction with NHS Gloucestershire and Gloucestershire County Council. It has helped more than 100 schools to deliver educational activities relating to growing food, learning to cook, eating breakfast and active play, providing funding for teacher training,

resources packs and extra facilitators. The programme has been so successful in engaging schoolchildren on the issue of healthy lifestyles that it has been recognised by organisations such as Business in the Community.

38. We will be working with Birmingham City Council's Health Education Service over the coming months to tailor the health4schools programme to the needs of local schools, with the aim of having the programme up and running by the start of the 2011 academic year in September.

#### IN CONCLUSION

39. In acquiring Cadbury, we knew that we were acquiring not only an excellent company but one with a strong emotional connection with millions of people. We are working hard to prove our respect for Cadbury's heritage and values and to show the many benefits of combining with Kraft Foods. Of course, actions are what matter most, and we believe this brief report demonstrates that we are doing what we said we would do. Kraft Foods is proud of the skilled and committed team we have in the UK and pleased that we can contribute to the country's economy and to the everyday lives of the millions of people who enjoy our products.

*31 January 2011*

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