

## Market shares and concentration

1. This appendix addresses the following issues:
  - (a) estimates of market shares in the British industrial sugar market, and consideration of a representation of the flow of sugar in the market;
  - (b) resulting measures of concentration prior to the acquisition; and
  - (c) impact of the acquisition on market concentration.

### Market shares

2. Table 1 shows the CC's best estimate of the market shares of the various suppliers in the British industrial sugar market. These market shares represent the share of supply from the customers' point of view, that is, the share of the supply of sugar direct to industrial sugar users. It does not represent the share of production of that sugar, which would be shared between British Sugar, Tate & Lyle and producers from other countries. (Shares of industrial sugar production are shown in Table 2).<sup>1</sup>
3. The supplier with the largest market share is British Sugar (38 per cent), followed by Tate & Lyle (29 per cent). NBF has a market share of 17 per cent, with JBS having a share of 8 per cent. Other smaller resellers (including BAKO, Kent Foods, BFP Wholesale and others) collectively account for 4 per cent of sales to customers, as do importers. The largest four suppliers collectively account for 92 per cent of the supply of sugar to industrial customers.

TABLE 1 **Share of industrial sugar sales to end users (by tonnes of sugar supplied in the British industrial market), 2004\***

<i>Supplier</i>	<i>% share</i>
British Sugar	38
Tate & Lyle	29
NBF	17
JBS	8
Other resellers (9)	4
Importers (6)	4
<b>Total</b>	<b>100</b>

Source: CC analysis, data supplied by a number of parties.

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\*The majority of data is for calendar year 2004. However, a small number of data points relate instead to the financial year 2003/04. We do not believe that this has led to a significant bias in the market share estimates. The figures in Table 1 are consistent with those provided by NBF.

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<sup>1</sup>Note that the shares of NBF and JBS do not include sales made as a nominal merchant; these are attributed to the original sugar producer, since the customer negotiates with the original producer over the terms of supply. Having said this, sugar produced by Irish Sugar and sold through JBS is attributed to JBS, [§].

TABLE 2 Share of industrial sugar production (by tonnes of sugar produced for the British industrial market), 2004\*

<i>Supplier</i>	<i>% share</i>
British Sugar	52
Tate & Lyle	42
EU Imports	5
Imports from outside EU	1
<b>Total</b>	<b>100</b>

Source: CC analysis, data supplied by a number of parties.

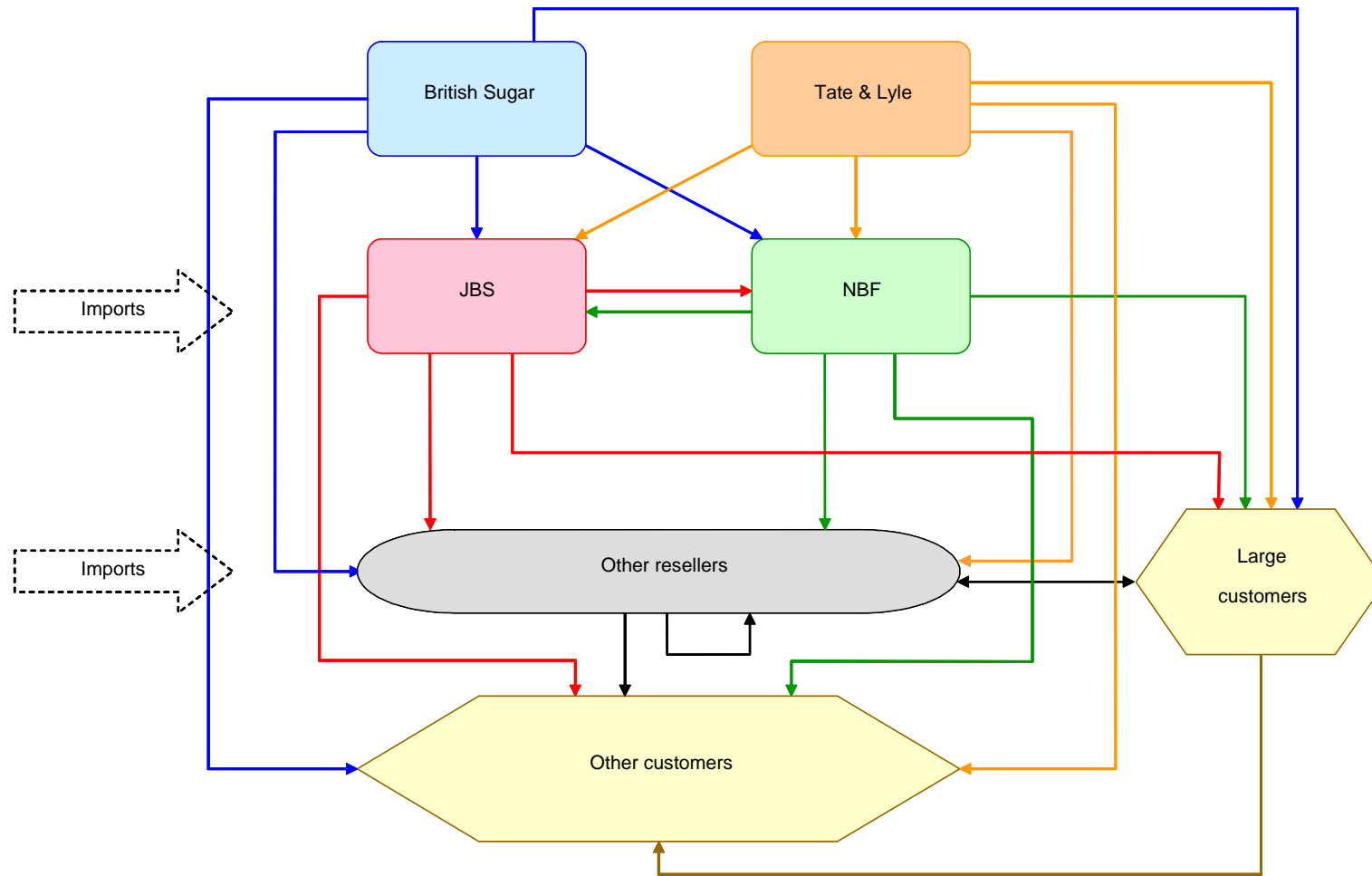
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\*Imports of sugar cane for refining by Tate & Lyle are included in the Tate & Lyle figures, not under 'Imports from outside EU'.

4. EUROSTAT data provided by Defra suggests that there were 126,000 tonnes of sugar imported to the UK in the year 2002/03. Using data submitted by various parties in relation to the most recent year, the CC has been able to identify imports of 80,000 tonnes of sugar into Britain from other EU countries. However, we recognize that there may be an additional quantity of sugar (perhaps around 50,000 tonnes) that the CC has not been able to track. A proportion of this volume will be exports of sugar from the Republic of Ireland to Northern Ireland, which does not form part of the relevant geographic market. However, if we assumed that a total of 126,000 tonnes of sugar were being imported into the British market from other EU countries, the share of supply to customers by importers in Table 1 would rise from 4 to 6 per cent (and the total share of production by EU and non-EU importers in Table 2 would rise from 6 to 8 per cent).
5. The flows of sugar in the British industrial market are complex, and sugar can potentially pass through the control of a number of resellers before reaching industrial users. A diagrammatic representation of this flow of sugar is presented in Figure 1.

FIGURE 1

Representation of the flow of sugar in the British industrial sugar market\*



Source: CC estimates.

\*The CC has estimated the volume of sugar relating to each 'flow' in the above diagram. However, this data has been excised prior to publication.

## Concentration prior to the acquisition

6. The British sugar market would appear to be relatively highly concentrated. If we consider the Herfindahl-Hirschman Index (HHI), which is a measure of market concentration calculated as the sum of squared market shares, then using the market shares discussed above, we observe an HHI of 2,633.<sup>2</sup> The HHI itself can lie anywhere between 0 (implying completely fragmented supply) and 10,000 (implying monopoly of supply by a single firm). The OFT Guidelines categorize as ‘highly concentrated’ a market in which the HHI exceeds 1,800. This threshold is clearly passed in this case, although it should be noted that the CC pursues a less prescriptive approach to assessing market concentration than the OFT, and whilst we will have regard to the OFT’s suggested threshold, it forms only one factor in our wider assessment of competition.

## Impact of the acquisition on concentration

7. Following the acquisition, assuming that all of JBS’s business is transferred to NBF and other conditions remain unchanged, the HHI measure of concentration (based on tonnage of sugar supplied) would rise by 265 points to a level of 2,898.
8. The OFT’s guidelines state that they will consider that, in a highly concentrated market, an increase in the HHI of more than 50 points may give rise to potential competition concerns. However, as with the interpretation of the original pre-acquisition HHI, the CC pursues a less rigid interpretation of the HHI when considering the impact of an acquisition.
9. In this case, the acquisition will clearly increase the level of concentration in the market, and the impact on concentration is such that we cannot rule out the possibility of an impact on the level of competition (as we may be inclined to do if the HHI measure of competition was relatively unaffected by an acquisition). However, in the case of the British industrial sugar market, the impact of the acquisition on the HHI does not really tell us a great deal about the extent of the impact that the acquisition will have on the market. Given the degree to which the pattern of supply in the market is determined by British Sugar’s price-leading behaviour combined with the dependency of the majority of resellers on supplies from the two British sugar producers, it appears that the HHI may understate the extent to which the *market power* is concentrated in the hands of British Sugar and (to a slightly lesser extent) Tate & Lyle within this market. As such, the acquisition may have a lesser impact on the concentration of market power within the industrial sugar market than might appear the case based on an initial inspection of the HHI. The extent of the impact depends largely on the extent of the competitive constraint imposed on British Sugar and Tate & Lyle by the existence of JBS and NBF in the market. Nevertheless, it is correct to state that market shares would become more concentrated following the acquisition of JBS by NBF.

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<sup>2</sup>Note that the HHI has not been calculated using the grouped data presented in Table 1, but rather using the disaggregated data underlying the table, that reflects the share of supply of the various resellers and importers on an individual basis.