



Media Statement

For Immediate Release

05 October 2018

EXTENT OF MARKET CONCENTRATION IN SOUTH AFRICA'S PRODUCT MARKETS

The Commission has noted the article by Tim Cohen, senior editor of the Business Day, titled "Competition bill is based on dodgy numbers" published in the Business Day on 5 October 2018. In the article, Mr Cohen states that he is not "an economist or expert on competition, but a quick examination of the data suggests the notion of 'concentration' is either overstated or false. I wish someone would re-examine the factual premises more thoroughly and scientifically than I am able to. I might be wrong..."

In order to facilitate a more rigorous and informed debate, the Commission wishes to re-share its market concentration study which it published earlier this year as a working paper.

Market concentration reflects the number and size - distribution of firms in a market, in other words, it measures the structure of a market. One objective of competition regulation is to reduce market concentration towards lowering prices and, more generally, promoting rivalry and competition.

There are a number of different ways to measure concentration. Concentration indexes measure the ability of firms to raise price above the competitive level. The first step is to define the relevant market. Market definition is a tool used to identify and define the boundaries of competition between firms. The relevant market contains the most significant competitive alternatives available to the customers whilst the relevant product market is the set of products that customers consider to be close substitutes.

The Herfindahl-Hirschman index (HHI) is the most commonly accepted measure of market concentration. The HHI takes account of the differences in the sizes of market participants, as well as their number. The HHI gives a score that can range from close to zero (when a market is occupied by a large number of firms of relatively equal size) to 10,000. The HHI takes the value of 10,000 in the monopoly case and declines as the level of concentration decreases.

For instance, the U.S. Department of Justice considers markets below 1500 to be un-concentrated; those between 1500 and 2500 to be moderately concentrated, whilst those above 2500 are classified as highly concentrated. As regards the HHI, in the UK any relevant market with a post-merger HHI exceeding 1,000 may be regarded as concentrated and any relevant market with a post-merger HHI exceeding 2,000 as highly concentrated. The Commission followed these two guidelines to identify highly concentrated markets in its study.

The study analysed 2,150 Commission merger reports from January 2009 to March 2016 in order to identify the relevant markets, estimated market shares and calculate the corresponding HHIs. The identified firms in a relevant market together with their respective market shares form the basis of the HHI calculations.

The study finds that the average market share of the identified dominant firms in defined markets and across sectors is about 52.5%. If the sample is limited to markets with firms defined as presumptively dominant in the Competition Act the average market share, across sectors, is about 62%. Table 1 provides further information on the average market share estimated for the dominant firms in defined relevant markets identified within each sector deemed priority by the Commission.

Table 1: Average market share estimates of dominant firms in defined markets identified across priority sectors

Priority Sectors	Average market shares (entire sample)	Average market shares (firms defined as presumptively dominant)
Information communication technologies	49.3%	55.2%
Energy	50.1%	60.8%
Financial services	62.2%	68.8%
Food and agro-processing	52.9%	60.5%
Infrastructure and construction	45.5%	52.6%
Intermediate industrial products	51.4%	63.3%
Mining	57.1%	62.0%
Other	51.8%	61.5%
Pharmaceuticals	52.4%	59.6%
Transport	57.1%	67.4%
Total	52.5%	61.6%

The study also finds that the average HHI across the defined product markets is approximately 2 986 (see table 2). When considering the static measure of concentration across the Commission's defined priority sectors, the study shows that all priority sectors have product markets with HHIs above 2500. The sector with defined markets that have the highest level of concentration is the Information Communication Technologies sector (at 3 539) while the financial services sector has an average HHI of 2 788.

Table 2: Average HHI in defined markets per priority sector identified by the Commission

Sector	Average HHI
Information communication technologies	3 539
Energy	2 832
Financial services	2 788
Food and agro-processing	2 861
Infrastructure and construction	2 859
Intermediate industrial products	2 958
Pharmaceutical	3 003
Transport	3 254
Other	2 891

In interpreting this information, it is evident that the static level of market concentration is quite high in South African product markets. The IMF, the OECD and the World Bank have noted the lack of competition and concentration in South Africa. For example, the World Bank has twice in 2014 and 2016 found that South African manufacturing and export markets have high market concentration with a few firms accounting for the bulk of the market, including non-mineral exports where the top 5 percent of firms account for 93 percent of total non-mineral exports.

The Commission's study is a comprehensive empirical account of the extent of concentration in product markets in South Africa. The Commission is satisfied with the methodology and analysis in identifying concentration in product markets in South Africa.

The Commission has published a working paper on the study and is available on its website at <http://www.compcom.co.za/working-paper-series/>

[ENDS]

Issued by:

Sipho Ngwema, Head of Communications

On behalf of: The Competition Commission of South Africa

Tel: 012 394 3493 / 081 253 8889

Email: SiphoN@compcom.co.za

Find us on the following social media platforms:

Twitter: @CompComSA

Instagram: Competition Commission SA

Facebook, LinkedIn and YouTube: The Competition Commission South Africa