

Competition Authority publishes report on cement sector inquiry

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On May 8 2014 the Turkish Competition Board launched an inquiry into the cement sector. On November 2 2016 the Turkish Competition Authority published a 177-page report on the inquiry.

General assessment and method

The report includes:

- a detailed assessment of the grey cement sector's market structure and the conduct of market players;
- general background information on cement products and the sector in general; and
- an assessment of the sector's competitive dynamics.

The report notes that cement production has regional hinterlands and that market entry barriers are high.

Following various complaints and investigations, the Competition Board has devoted considerable resources to the cement sector over the past five years. Particularly in the last five years, in parallel to the increased number of complaints and investigations, the Competition Authority noted an increase in administrative fines in the sector and found it necessary to conduct a sectorial inquiry.

The inquiry examined data from January 2009 to August 2014 and focused on Bulk CEM I 42.5 cement, the sector's biggest selling product. In particular, the inquiry:

- conducted detailed statistical analysis of the cement sector and quantitative analysis of its main competitive indicators across Turkey;
- examined how this outlook differs under provincial, undertaking, product and customer breakdowns; and
- examined the relationship between market structure, the conduct of undertakings and competitive conditions under these categories.

In this context, the report provides information regarding:

- the relationship between price fluctuations and cost and demand changes from long and short-term perspectives;
- the economic behaviour and pricing decisions of market players; and
- the years in which undertakings in the sector maintained profit maximisation.

Further, the report measures the production effectiveness of market players and compares their production effectiveness with pricing levels. As a result, the report assesses the cement sector's compliance with the expected price-effectiveness relationship.

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Descriptive statistics analysis

The report provides a descriptive statistical analysis, which outlines the cement sector's structure and the market conduct of undertakings. Market structure, the conduct of undertakings and relevant competition parameters within the report's findings vary according to province, customer and product breakdown. However, these findings were consistent over the years and, within this framework, the report argues that the cement sector has a stable market structure.

Market player behaviour

The report uses the following methods to examine the behaviour of the cement sector's market players:

- a price and cost analysis;
- a price and demand analysis;
- a joint-pricing analysis; and
- an efficiency and competition analysis.

The price and cost analysis found that prices do not always decrease relatively in the case of cost decreases. With respect to the price and demand analysis, the report concludes that a long-term equilibrium is not found between demand and price with respect to the short-term effects. Demand was not found to affect prices in the majority of the provinces examined.

Further, the joint-pricing analysis found that cement sector prices in the period examined were generally higher than expected in markets with oligopolistic competition (excluding certain consumption points).

The efficiency and competition analysis found that:

- undertakings in the sector should increase their efficiency levels; and
- this increase should result in the effects expected from a competitive market.

Comment

The main competition law issues that the report highlighted are high price increases and market division.

Regarding price increases, no direct correlation was found between grey cement sale prices and economic parameters, such as seasonality, demand and cost. Further, an economic model simulation revealed that joint profit maximisation is prevalent in the sector and a correlation between efficiency and costs (ie, high efficiency levels result in lower costs). Conversely, an examination of the correlation between price and efficiency of CEM I 42.5 (45 observations) and grey cement (48 observations) found that high prices may be applied despite high efficiency levels. With regard to undertakings that operate with low efficiency levels, the report asserts that:

- the efficiency of undertakings operating in the cement sector must be increased; and
- an increase in efficiency should result in the outcomes expected in a competitive market.

As regards the allocation of territories, the report found that the cement sector does not meet the expected competition levels due to the distribution of sales volumes. More than half of the cement used in the provinces is obtained from local facilities. As a result, cement distribution terminals conduct more than half of their total sales in the provinces where they are located. Further, it was found that, in general, no more than two undertakings made sales in a specific province concurrently. However, there is no indication that a price decrease results in an increase in the number of undertakings selling products in a specific province. It was found that the market shares of undertakings have been symmetric across Turkey and that approximately 50% of the Turkish cement market is held by five undertakings.

The report reveals that there is much to be done to improve competitiveness in the cement sector.

Although the Competition Board continues to conduct inquiries regarding the scope of competition law and its effects, the Competition Authority has stated that promoting the potential effects that competition law could have on the sector and ensuring that this is fully comprehended by all market players is of vital importance. Therefore, the authority has indicated that the sector inquiry's results should be made available to all relevant parties, as the report allows the inquiry's methods and results to be discussed and promotes the steps required to improve competition in the cement sector.

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