

# [Is beer becoming more concentrated? essay sample](https://assignbuster.com/is-beer-becoming-more-concentrated-essay-sample/)

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At first glance, the UK brewing industry might appear to be highly competitive, with many pubs in close proximity to one another and with many brands of beer and lager offered for sale. However, in reality most pubs are owned by the major brewers. Tied houses, as they are called, account for about 40 per cent of a brewer’s turnover, and sell only a limited range of the beers and lagers that are available. Consumer choice is clearly constrained. The oligopolistic nature of the brewing industry can be seen when we consider the market shares of the leading brewers (see table). In 1985 the three largest brewers held 47 per cent of the market. By 2001 this had grown to 73 per cent. What is also significant is that small independent brewers, which generally operate within a local or regional market, have seen a dramatic fall in their market share. With this huge growth in the market power of the major brewers have come large rises in the price of beer (even after taking inflation and tax increases into account). Prices in the UK have risen faster than anywhere else in Europe.

1987, the Monopolies and Mergers Commission, the forerunner to the Competition Commission (see section 6. 6), investigated the brewing industry and in 1989 issued the ‘ Beer Orders’, requiring the large brewers to sell many of their pubs. The objective was to increase competition as smaller brewers and other companies and individuals bought these pubs and then stocked a range of beers.

However, the hopes were ill-founded. The pubs that were sold were the least profitable, and many have since closed. There is thus now less competition between pubs. Also, about 40 per cent of UK pubs are now owed by large pub chains.

The Beer Orders also required that over 10 000 pubs owned by the big breweries should stock ‘ guest beers’ from rival breweries. But the big breweries responded by selling most of these pubs. In pubs not owned by the big breweries, and where there is the threat of genuine competition, the big breweries often supply their beers at lower prices, thus making it impossible for the smaller breweries to compete.

The brewers, finding a reduction in their scope for achieving economies of scale from vertical integration (owning both breweries and pubs), have sought to gain economies of scale from horizontal integration (having a larger share of total brewing). Mergers and takeovers in the brewing industry have been common. For example, in May 2000 Interbrew (the Belgian brewer and owners of the Stella Artois brand) acquired Whitbread, the UK’s third largest brewer, and a month later acquired Bass, the second largest. This gave Interbrew nearly one third of the market. The acquisitions were referred to the Competition Commission, which recommended a break up of the new giant: a recommendation accepted by the government. In response, at the end of 2001 Interbrew (now called ! nbev) sold most of the Whitbread division, including brands such as Carling, Caffrey’s and Worthington, to the US brewer Coors.

In the light of this splitting of Interbrew, and feeling that this proved that competition policy was effective, the government in 2002 decided to scrap the Beer Orders. This was greeted with dismay by small independent brewers, which were already reluctant to expand, faced with the power of such massive competitors in both production and retail, with heavily advertised brands gaining larger and larger shares of the market.

Small independent brewers are understandably reluctant to expand, faced with the power of such massive competitors in both production and retail, with heavily advertised brands gaining larger and larger shares of the market.