

Accelerated sector inquiry on the brick market: market concentration, significant differences in distributors' prices

30 August 2021, Budapest – The Hungarian Competition Authority (GVH) has published the draft of its report on the accelerated sector inquiry it has conducted on the domestic market of ceramic masonry elements. The market players involved in the segment can submit their comments for 8 days within the framework of public consultation. The GVH will continue its work with another accelerated sector inquiry concerning another construction industry raw material.

The GVH, exercising its powers expanded in order to put an end to the increase in prices in the construction industry, [launched an accelerated sector inquiry](#) in the domestic market of ceramic masonry elements at the end of July. Within the framework of this comprehensive investigation, the GVH conducted dawn [raids at Hungarian brick manufacturers, procurement groups, and distributors](#) across the country, as well as a contractor engaged in installing brick products. Through requests for data, the GVH also contacted several other market players (e.g. procurement groups, significant contractors, foreign brick factories) in order to uncover any issues in the sector.

Based on the information collected, the Authority has drawn several significant conclusions and formulated proposals for both the government and the market players in the affected sector (including house builders and distributors). On the basis of the sector inquiry, there was no sufficient cause for initiating a competition supervision proceeding in the domestic market of ceramic masonry elements.

From the point of view of **house builders** and **consumers**, the lessons learned from the sector inquiry of the GVH are that the price analyses performed uncovered significant differences between the prices of different construction material distributors; therefore, significant price increases were also possible at certain building yards. Therefore, the GVH would like to call the attention of buyers to the fact that they should not accept just a few (or a single) offer before making decisions, since different, perhaps lower, prices may be found at other distributors.

With respect to **manufacturers**, the investigation of the GVH established that in light of the uncertainty caused by the coronavirus pandemic, certain undertakings reduced their production, which led to temporary shortages due to the increased demand. This has mostly been remedied by now. However, since individual construction material distributors decide themselves what product portfolio they wish to offer, it is possible that not all products are available at all building yards. Taking into account the fact that the raw material of brick construction is available in Hungary; therefore, the facts uncovered by the GVH suggest that the market concentration present on the manufacturing level (the presence of few market players of significant size) can be counterbalanced and the competition between manufacturers can be increased through state incentives aimed at expanding Hungarian production capacities.

It directly affects the wallet of consumers that even though the price of a product would itself not be a cause of increased prices, the higher transport, packaging, and logistics fees can still result in price increases. This means that the increase in associated prices can affect the price of construction industry raw material prices and thus the costs of house builders as well.

Construction industry raw materials, including brick products, are typically supplied to house builders and buyers through **distributors (building yards)** and procurement groups that include several such vendors; therefore, it was especially important to investigate this segment of the market. The investigation revealed that building yards and procurement groups acquire the products of specific manufacturers at a discount in the case of large-volume orders. This encourages distributors to concentrate their orders on a single or a few suppliers. Although the application of volume discounts strengthens the market position of significant players (Wienerberger, Leier); however, it also leads to price advantages for consumers, meaning that they can purchase brick products at lower prices as a result. Therefore, the GVH would like to call attention to the fact procurement groups that include smaller construction industry distributors are the best way to counterbalance the more significant negotiation power of larger manufacturers.

Based on the results of the inquiry, the GVH prepared a draft report, which it published on its website for public consultation. In accordance with the special rules of the accelerated sector inquiry, market players can submit comments regarding the contents of the report by 6 September 2021. Following the comment submission deadline, the GVH is going to publish the report on the results of the sector inquiry, a summary of the comments received, and if requested, the most significant comments by the undertakings of the sector on its website.

The draft is available at the following address:

https://www.gvh.hu/dontesek/agazati_vizsgalatok_piacelemzesek/agazati_vizsgalatok/jelentes-tervezet-a-magyarorszagi-keramia-falazoelemek-piacan-lefolytatott-gyorsított-agazati-vizsgalatrol

GVH Press Office