Response from Market Participant A to the CMA's Supplementary Interim Report

We note the CMA's provisional finding that the proposed merger between Hovis and Allied Bakeries may proceed on the basis that the outcome would be no worse than the counterfactual scenario in which Allied Bakeries Belfast exits the market. The CMA therefore provisionally concludes that the merger would not give rise to a Substantial Lessening of Competition ("SLC").

We respectfully disagree with that conclusion unless significant structural remedies are imposed.

In both the merger and non-merger scenarios, the result is that a single bakery group would control approximately 70–80% of the distinct Northern Ireland market for plant bread and hotplate products. However, the CMA's analysis appears to focus principally on whether the merger worsens the position relative to Allied Belfast closure, rather than whether effective and sustainable competition can realistically survive in the Northern Ireland market thereafter.

1. Structural remedies are required

It is our contention that any approval of the merger should be conditional upon measures that materially reduce the merged entity's market dominance. In particular, this should include:

- the closure or divestment of either the Hovis or Kingsmill Belfast bakery operation; and
- the transfer of brands and associated production rights to credible challenger operators.

Without such measures, the merger would effectively entrench a monopoly or near-monopoly position in Northern Ireland.

2. Effective competition cannot emerge without retained capacity and brands

No credible competitive challenge can be mounted by Irwin's, Brennan's or Gallagher's unless meaningful production capacity and established brands are transferred outside the control of the merged entity.

Absent these remedies, the position of these competitors would likely weaken further when faced with a supplier controlling the overwhelming majority of production, distribution, and retailer relationships in Northern Ireland.

The issue is therefore not solely the merger itself, but the retention by the merged entity of both:

- excess production capacity; and
- established consumer brands.

These factors together prevent the emergence of efficient and sustainable competition.

3. Retailer responses support the need for divestment remedies

The views expressed by retailers during the CMA process strongly support this position.

Retailer A stated that the merger would lead to a substantial lessening of competition in Northern Ireland. It further indicated that divestment, where possible, would help preserve competition. The retailer also emphasised the importance of brand transfer and maintaining access to a comparable range and quality of bakery products.

Retailer B similarly supported divestment of Allied Belfast as a means of preserving competition. Although concerns were raised regarding industry capacity, the data available to the CMA would appear to indicate that sufficient capacity exists within the market.

Retailer C acknowledged the structural fragility of the plant bread sector, including excess capacity and diversification pressures affecting bakery operators. It also recognised that remedies should preserve a long-term competitive constraint in Northern Ireland. Importantly, Retailer C highlighted:

- the significance of established delivery networks;
- the reduced incentive of a merged supplier to carry third-party brands; and
- the increased dependency that retailers would have on the merged entity's distribution infrastructure.

These retailer observations align closely with the concerns set out in this response.

4. Supply chain resilience and food security concerns

Allowing the merger to proceed without structural conditions would result in an excessive concentration of production and distribution within a single company.

Bread and hotplate products are essential daily food items within Northern Ireland. The concentration of supply into one dominant operator would materially weaken supply chain resilience in the event of:

- industrial action;
- fire or operational failure;
- transport disruption;
- civil disorder; or
- major equipment breakdown.

The maintenance of independent production and distribution capability is therefore not only a competition issue, but also a matter of food supply resilience and consumer protection.

5. Barriers to competition in grocery multiples

Within grocery multiples, the GB-wide scale and influence of Hovis and Allied Bakeries provide significant advantages that are not available to local competitors.

These include:

- guaranteed shelf space and listings;
- preferential shelf positioning;
- group-level overrider agreements;
- UK-wide promotional arrangements; and
- facilitated introduction of new products through national agreements.

These arrangements materially inhibit competition in Northern Ireland.

The reported position that Allied Belfast has traded at a loss for several years once overheads and central costs are taken into account suggests that products may have been supplied below sustainable economic cost levels. Such pricing behaviour has the practical effect of suppressing competitive development and discouraging market entry or expansion.

6. Distribution dominance in the convenience channel

The competitive imbalance is even more pronounced within the convenience and symbol-group sector.

The market operates primarily through a Direct-to-Store ("DTS") delivery model involving:

- full-service ordering;
- frequent deliveries; and
- management of returns.

This model depends heavily on achieving efficient vehicle payloads and route density.

If the merged Hovis / Allied entity controls approximately 80% of market volumes, competing suppliers will face a severe structural disadvantage in building economically viable delivery networks.

This is already evident in less densely populated areas of Northern Ireland, where some convenience retailers struggle to obtain reliable DTS service from alternative suppliers.

Predatory or below-cost pricing practices further compound this problem by making it more difficult for challenger bakeries to build sustainable route density and competitive scale.

7. Conclusion

The CMA's provisional conclusion appears to rely heavily on the proposition that the merger outcome is no worse than Allied Belfast exiting the market entirely.

However, this approach risks accepting a highly concentrated market structure that would:

- entrench long-term dominance;
- weaken existing competitors;
- reduce retailer choice;
- increase dependence on a single distribution network; and
- undermine supply chain resilience in an essential grocery category.

Accordingly, if the merger is to proceed, meaningful structural remedies are necessary to preserve effective competition in Northern Ireland. At minimum, this should include the divestment or closure of one Belfast production site together with the transfer of brands and associated capabilities to an independent challenger operator.

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