



TO: SECRETARY OF STATE FOR TRADE AND INDUSTRY

FROM: JOHN S BRIDGEMAN
DIRECTOR GENERAL OF FAIR TRADING

31 July 2000

ACQUISITION BY HCA OF ST. MARTINS HEALTHCARE LIMITED

1. In this submission I advise under section 76 of the Fair Trading Act 1973 (FTA) on this merger situation. I recommend that you should **not refer** this transaction to the Competition Commission.

TIMING

2. **Routine.** This is a completed merger. The four month period for consideration expires on 1 October 2000.

TRANSPARENCY

3. I plan to begin to publish the assessment sections of my advice on mergers in the near future. This will probably take the form of a report under section 125(4) of the FTA. Although I do not intend to publish the assessment section of this particular submission, it has been drafted as if for publication, so that any problems with such publication can be identified. Items in *italics* would be likely to be excised from the published text for confidentiality reasons.

JURISDICTION

4. The merger qualifies on the assets test: the assets of St Martin's are valued at £88.4 million. The parties overlap in the provision of private acute healthcare in central London and may also satisfy the share of supply test but it is not necessary for me to determine this. The ECMR does not apply as both parties achieve more than two thirds of their EC turnover within the UK.

BACKGROUND

5. The Mergers Panel paper (MP 111/2000 – copy attached for those who have not received it) gives further background.



6. The panel paper demonstrated that the parties' share of the private healthcare market would be 23 per cent, with an increment of 6 per cent if the relevant geographical market were defined as that for London postcodes. The transaction was given favourable confidential guidance on 18 April on this basis (MP 54/00 refers).
7. During the course of my investigation, some interested parties argued that there was a separate market for private hospitals in central London, which offered treatment and care to an exceptionally high standard. Some also argued that the parties would have a high market share in particular specialist treatments, particularly neurology and cardiology. The exact nature of "central London" had not been precisely defined in these submissions but a circle of 5 miles radius around Harley Street had been suggested.

VIEWS OF THE MERGERS PANEL AND RECENT DEVELOPMENTS

8. 
9. 
10. 
11. 
12. 



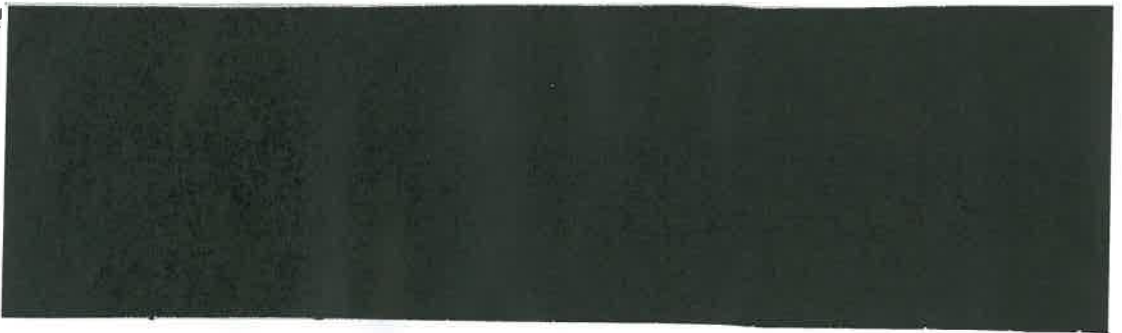
13



14.



15.



16.



17.



ASSESSMENT

Jurisdiction

18. I have established that this transaction qualifies for investigation by satisfying the assets test of the Fair Trading Act. It may also qualify under the share of supply test but it has not been necessary to determine this.



Relevant markets

19. The relevant product markets appear to be either the provision of private acute medical services in London or a series of individual markets for particular specialisms e.g. neurology, cardiology, oncology. Market shares are dependent on whether the geographical market is defined as central London or more widely. I have considered confidential data on the origin of patients treated in all of the hospitals for each of the main specialisms. The data clearly demonstrates that patients travel from outer London, and sometimes even further. Furthermore, consultants are critical in the choice of hospital but most consultants have admission rights to at least three hospitals, of which at least one will be outside central London. It therefore seems to me that the market is likely to be at least as wide as all London postcodes.

Analysis

20. On this basis the parties have indicated that their market share of private acute healthcare would, at most, be *in the range 20-25 per cent*. There are a large number of other private hospitals within the London Postcodes area which compete for business. I also consider it likely that some NHS pay beds, particularly the private patient units (PPUs) of NHS teaching hospitals in London, will be an effective substitute for many people considering private health care. They will be regarded as such by consultants, who play a key role in the decision about the location used. If so, this would reduce market share levels still further. Market shares by specialism are also unlikely to raise significant concerns when reasonable assumptions are made about the number of procedures performed in PPUs.
21. In considering market shares in individual specialisms, the parties appear to have a particularly large share in neurosurgical services while third parties have also expressed concern about cardiology and oncology. The parties share in cardiology in London is *24 per cent* and it is *29 per cent* in oncology (in the latter case before account is taken of NHS pay beds). I do not consider that market shares at this level give cause for concern. The parties market share in neurosurgery appears to be substantially higher, at *62 per cent*. Again, however, this market share figure takes no account of NHS pay beds, particularly those of the London teaching hospitals or of the NHS National Centre for Neurosurgical Care, which will compete in the same market. Although I cannot put an exact figure on the number of NHS pay beds which will be competing in this market, I am satisfied that there will be substantial competition to the parties, which will allay any concerns.
22. I note also that *60 per cent* of all these services are acquired by providers of private medical insurance, who will have substantial buyer power.

RESTRICTED - COMMERCIAL AND MARKET SENSITIVE
RESTRICTED - COMMERCIAL & MARKET SENSITIVE



23. On the basis of the above analysis there are unlikely to be competition concerns, whether the relevant market is for all acute private health care or for a series of separate markets for individual specialisms. It is therefore unnecessary to reach definitive conclusions on the exact market definition.

Vertical Issues

24. No vertical issues arise in this case.

Third Party Views

25. I have received a number of representations and have consulted customers and competitors in the usual way. I am satisfied that the points made do not indicate any significant anticompetitive effects arising from this merger.

CONCLUSION

26. I have considered carefully the appropriate scope of the geographic market affected by this merger. I have concluded that on any reasonable market definition the parties would not have significant market power in the areas of overlap because of the independence of consultants, the availability of alternative facilities and the likely degree of buyer power. Therefore, no significant competition concerns arise.
27. I therefore conclude, and recommend, that you should not refer the proposed transaction to the Competition Commission.



JOHN S BRIDGEMAN
DIRECTOR GENERAL OF FAIR TRADING

RESTRICTED - COMMERCIAL AND MARKET SENSITIVE



RESTRICTED - COMMERCIAL & MARKET SENSITIVE

OFFICE OF FAIR TRADING

Mergers Secretariat

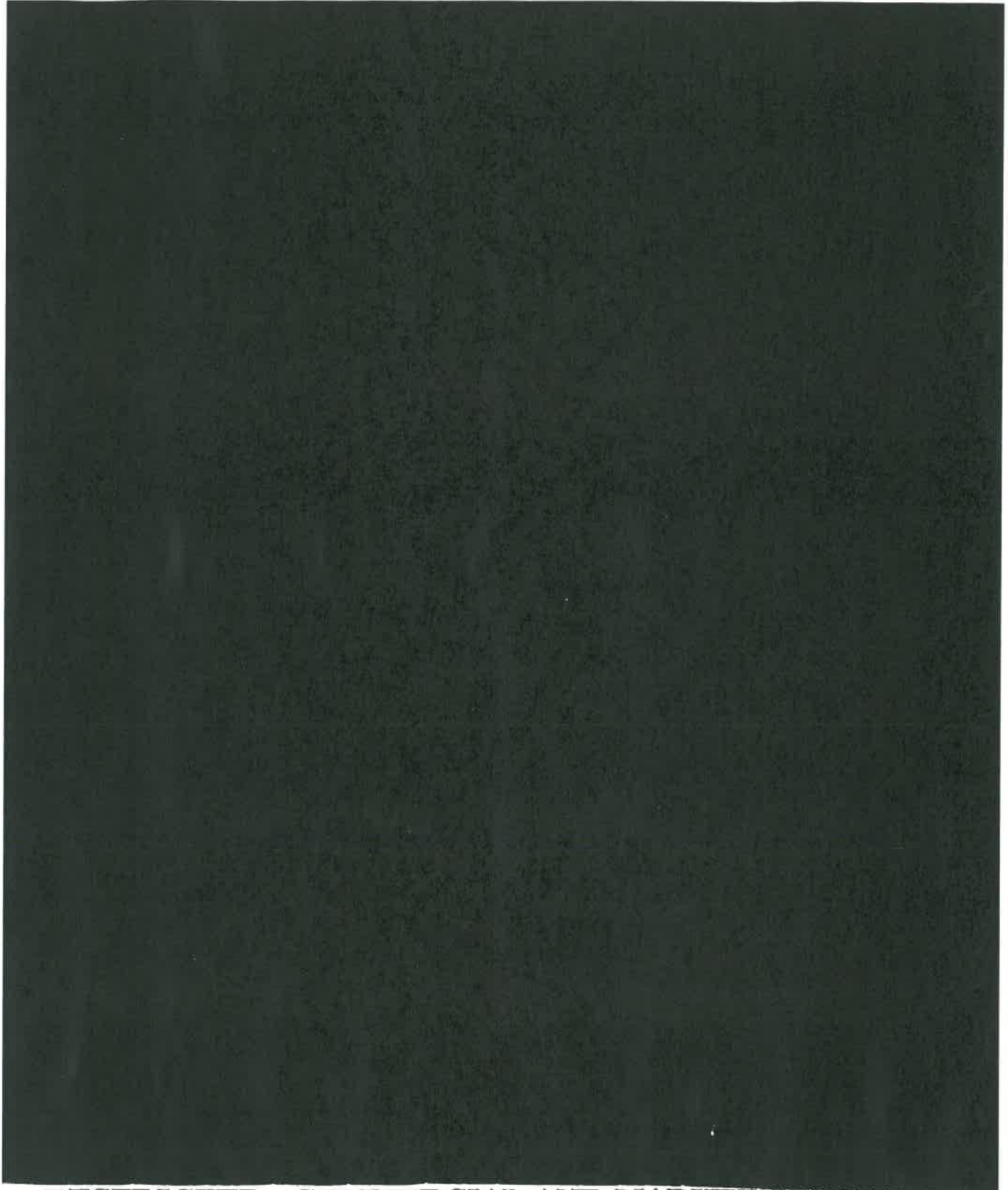
Fleetbank House

2-6 Salisbury Square

London EC4Y 8JX

Tel 020 7211 8915

DISTRIBUTION



RESTRICTED - COMMERCIAL AND MARKET SENSITIVE