

# Competition Assessment of government policy

**Presentation to Competition Commission  
of India, 17 November 2009**

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## Outline

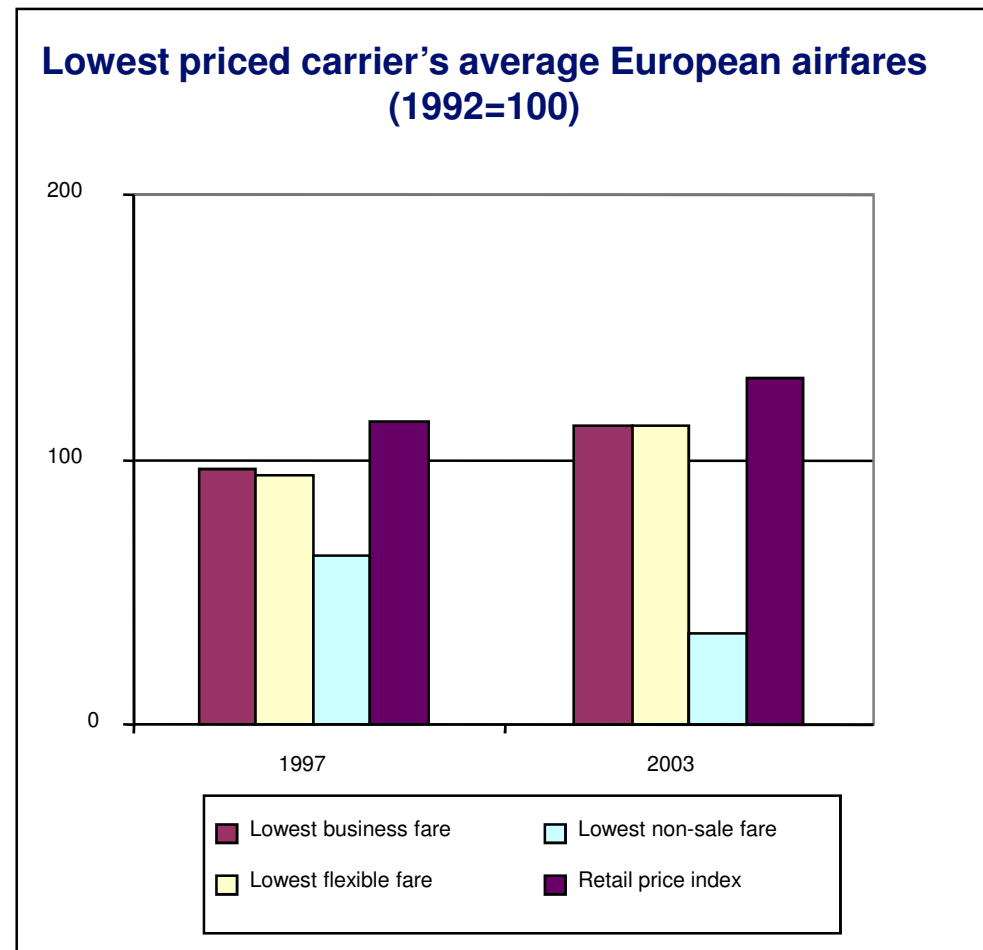
- **Role of competition assessment**
- **Framework for CA in the UK**
- **Some recent examples**

## Competition matters...

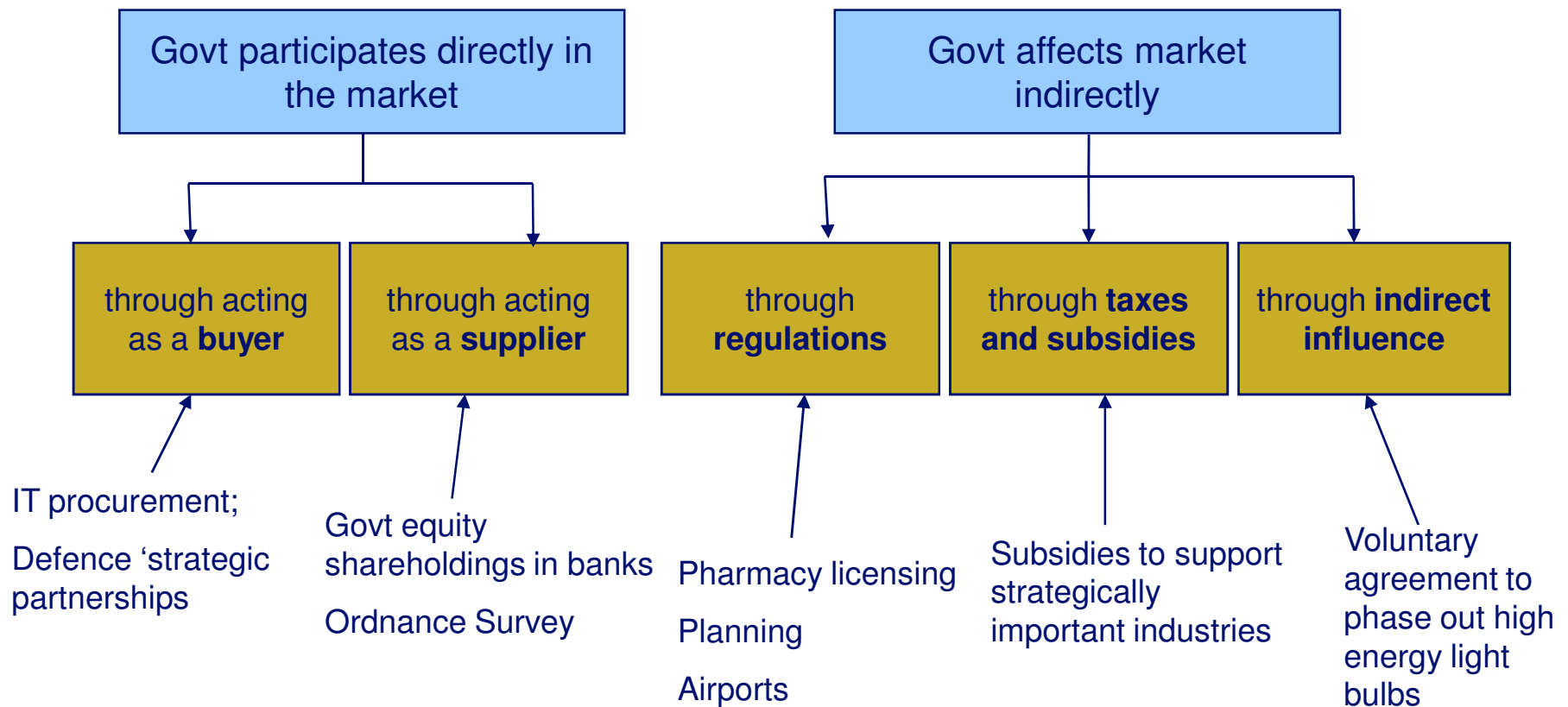
- **Competition can create benefits for consumers, the economy and government**
- **The public sector has a range of important policy objectives, but its actions can inhibit competition**
- **Not simply a case of “the more competition the better”**
- **Keeping competition distortions to the minimum necessary to achieve policy objectives**

# Liberalisation of EU aviation markets

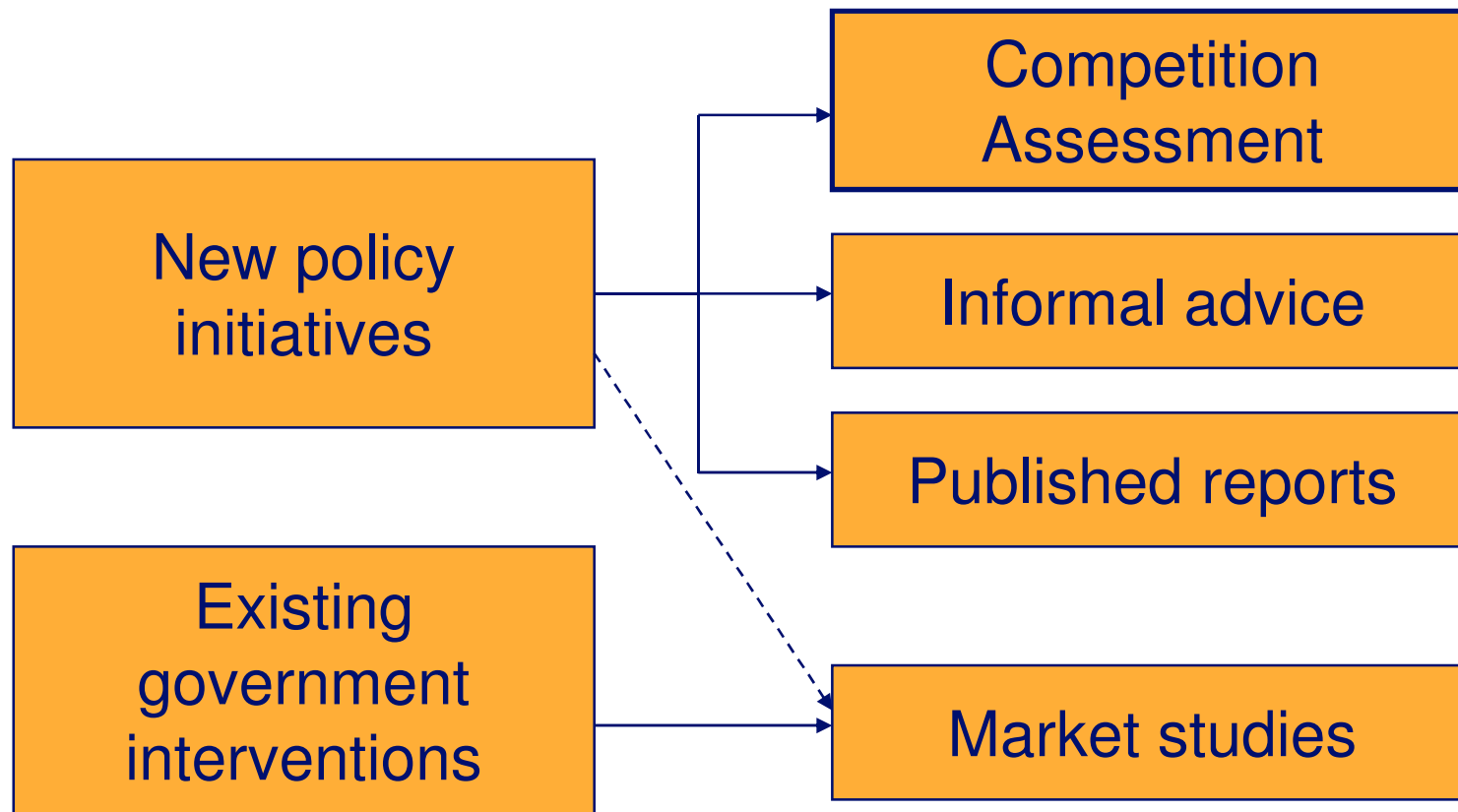
- Lower fares
- Access to more destinations
- Innovation



## How can government affect markets?



## Routes for influencing government interventions in UK ('Issues' advocacy)



## Role of CA alongside other tools

- **Competition Assessment a useful tool**
  - Ensures that policy makers are forced to consider the issues
  - Good way in to wider policy discussions with policy makers (e.g. pensions, energy efficiency)
  - Legitimises further OFT involvement
- **Risks**
  - We get involved too late in the policy-making process
  - CA is treated as an 'add-on'
- **Need combination of approaches**

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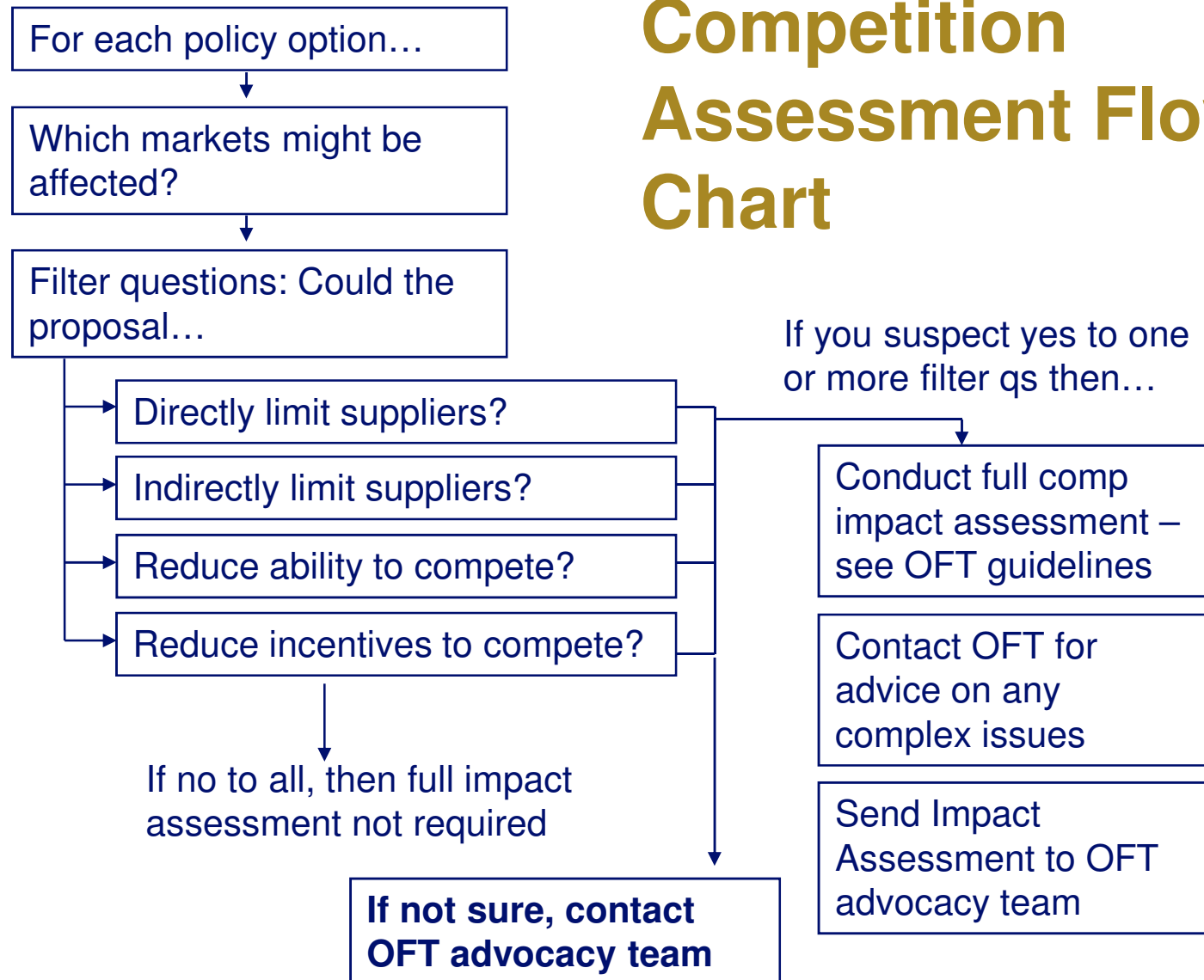
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## Impact Assessments (IAs)

- **Previously known as Regulatory Impact Assessments (RIAs...)**
- **“....a tool which informs policy decisions. It is an assessment of the impact of policy options in terms of the costs, benefits and risks of a proposal.”**
- **Required for all new policy initiatives at consultation and final decision stage**
- **Specific Impact Tests – including Competition Assessment**
- **OECD toolkit**

# Competition Assessment Flow Chart



## Competition assessment filter

**Does the proposal:**

- **directly limit the range of suppliers?**
- **indirectly limit the range of suppliers?**
- **reduce competitors' ability to compete?**
- **reduce competitors' incentives to compete?**

**If answer yes to one or more, then carry out a full competition assessment**

## Limiting the number and range of suppliers

- **i) Directly through restrictions on entry**
  - Quantity Restrictions (e.g. taxis)
  - Size restrictions (e.g. casinos)
  - Location restrictions (e.g. pharmacies)
- **ii) Indirectly through raising costs of entry**
  - 'Grandfathering' (e.g. airport slots)
  - Favouring a particular technology (e.g. environmental standards)

## Limiting/affecting the conduct of suppliers

- **iii) Reducing the ability to compete**
  - Price restrictions (eg minimum drinks prices)
  - Restrictions on form of business organisation (e.g. dentistry; legal profession)
- **iv) Reducing the incentive to compete**
  - Raising costs of switching
  - Exemptions from competition law (e.g. defence agreements)

## Some key points

- **Counterfactual – importance of the ‘do nothing’ option**
- **Important to assess all markets affected and potential for spill-over effects into other markets**
- **Even if a regulation applies in the same way to all firms, it can still affect competition**
- **CA can reflect positive as well as negative impacts – e.g. using market mechanisms**

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## Some recent examples of OFT input

- **Smart metering**
- **Household energy efficiency**
- **Pensions reform**
- **Entry controls on pharmacies**
- **Alcohol policy initiatives**



## Concluding thoughts

- **Importance of getting involved early**
- **Focus on a few big issues that really matter**
- **Use full range of instruments – combine formal CA with other advocacy**
- **Importance of wider attitude to regulation and markets within government**

## Resources

- **OFT Competition Assessment guidance:**  
[www.oft.gov.uk/shared\\_oft/reports/comp\\_policy/oft876.pdf](http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft876.pdf)
- **OECD Competition Assessment Toolkit:**  
[www.oecd.org/document/48/0,3343,en\\_2649\\_40381664\\_42454576\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/48/0,3343,en_2649_40381664_42454576_1_1_1_1,00.html)
- **OFT Government in markets paper:**  
[www.oft.gov.uk/shared\\_oft/business\\_leaflets/general/OFT1113.pdf](http://www.oft.gov.uk/shared_oft/business_leaflets/general/OFT1113.pdf)
- **DFID Competition Assessment framework:**  
<http://www.dfid.gov.uk/Documents/publications/comp-assessment-2008.pdf>
- **BRE guidance on overall IA process:**  
[www.berr.gov.uk/whatwedo/bre/policy/scrutinising-new-regulations/preparing-impact-assessments/page44077.html](http://www.berr.gov.uk/whatwedo/bre/policy/scrutinising-new-regulations/preparing-impact-assessments/page44077.html)
- **BRE Impact Assessment library:** [www.ialibrary.berr.gov.uk/](http://www.ialibrary.berr.gov.uk/)

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