

Competition policy in small economies

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Konkurransetilsynet
Norwegian Competition Authority

Competition and regulation in Norway a brief history

- 1945-1970: Heavy regulations and rationing after world war II were gradually dismantled. Free trade established and regulations gradually lifted
- 1980's:
 - OECD: Structural reform and Positive Adjustment Policies: nearly all OECD countries opted for deregulation and structural reforms
 - Norway: Deregulation of housing markets, banking and insurance. Government monopolies dismantled in telecom, electricity etc.
- 1994: The price regulation law was replaced by a new and modern Competition Act.
- 2004: Competition Act based on EU principles.



The Norwegian Competition Act

- **Purpose of the act:**
 - to further competition for the efficient utilization of society's resources.
 - The interests of consumers shall be given special consideration when applying the act.
- **Application of the act:**
 - The Competition Act applies to all undertakings, private or public, that exercise commercial activities.
 - Exemptions necessary to implement agricultural and fishery policies are established



Main tasks

The Competition Authority shall supervise, survey and enforce competition in the various markets:

- Call attention to any restrictive effects on competition of public measures (advocacy)
- Ensuring adherence to the prohibitions and orders of the Act
- Intervene when necessary against concentration
- Promote market transparency



Norway is densely populated with extreme distances, i.e shallow lokal markets with dominant suppliers

- Obvious strategy:
 - Open up as many markets for foreign competition and ownership as possible. The EEA agreement is very important.
- Examples:
 - Internet trade
 - Banking and financial services
 - Aviation
 - Free trade in goods



Some successful competition policy strategies

- Aviation market
- Nordic electricity market
- Retail grocery



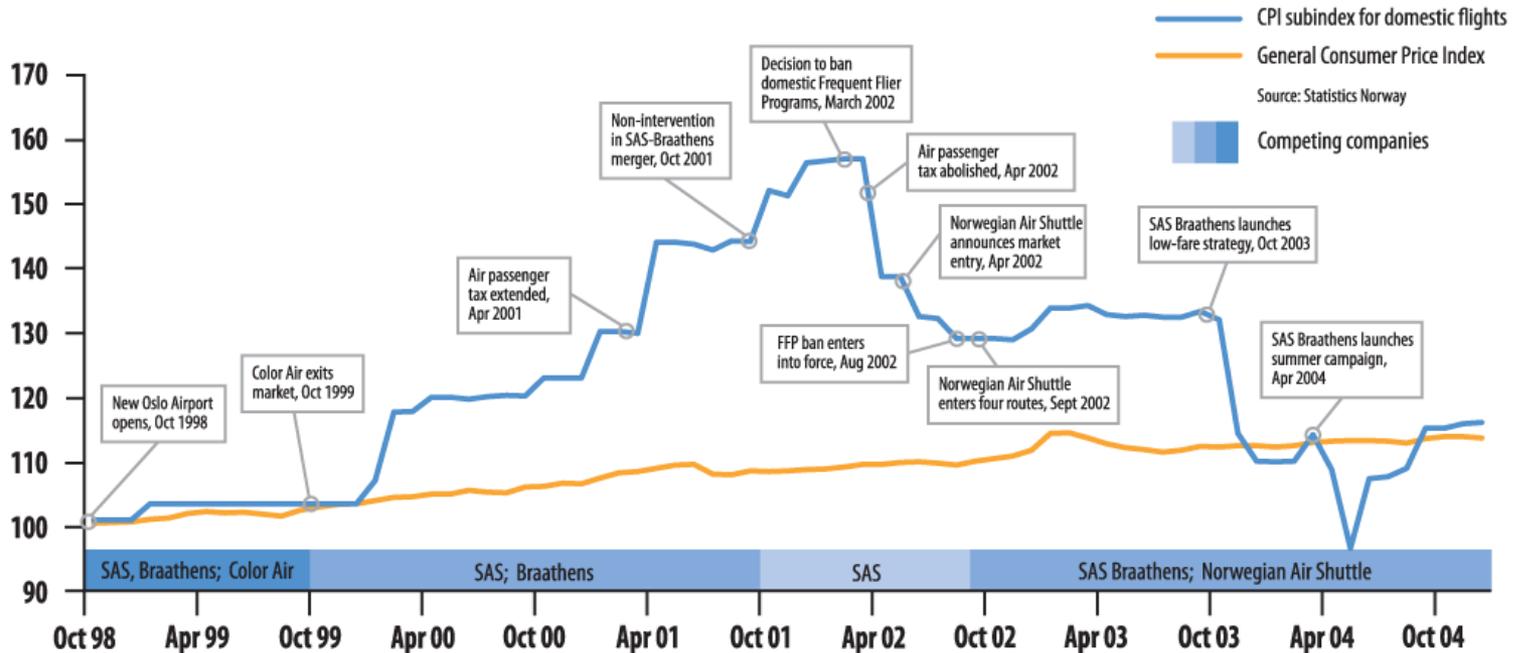
Norwegian airline industry: Successful deregulation – at last

- Deregulation in 1994
 - Competition along 'wrong' dimensions
 - High prices on flexible tickets continued
 - Clustering of departure time
 - Competition on capacities with many empty seats
 - Destructive competition
 - Color Air exited in 1998, after 400 MNOK loss
 - Braathens failing firm in 2001, and return to monopoly
- 2003: abolishment of domestic frequent flyer points
 - Norwegian entered on the four largest routes
 - Price competition and higher load factor



Competition works!

Domestic air fares and competition 1998–2004

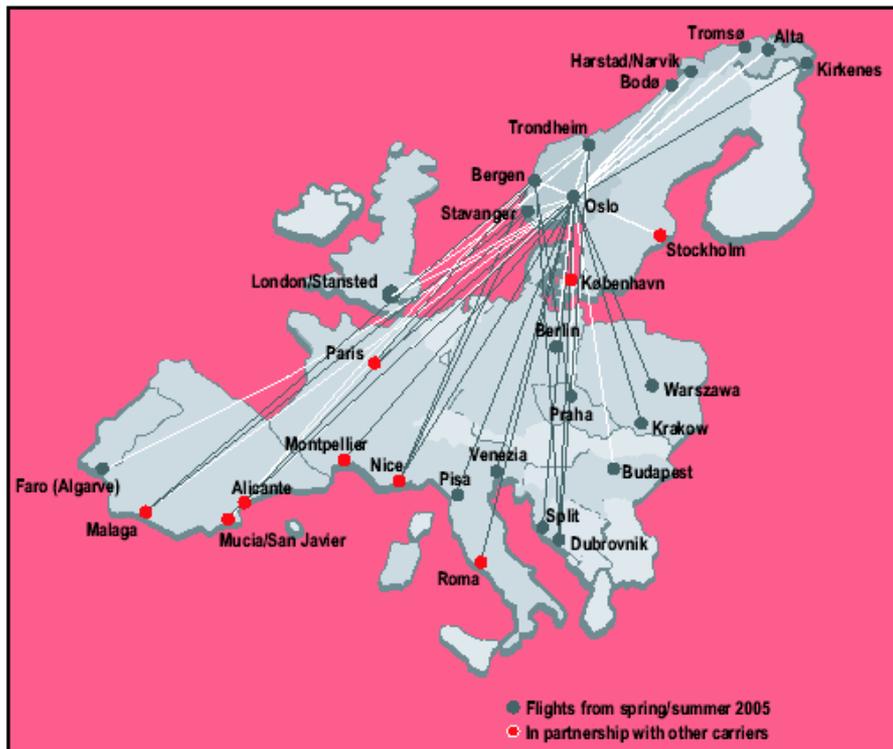


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Competition: The freedom to choose

Norwegian's network:



- Norwegian introduced direct routes out of Norway in the spring 03
- At present 60 routes out of Norway
 - Routes from Oslo, Bergen, Trondheim and Stavanger
- SAS responded with new direct flights this spring
 - Bergen-Roma
 - Bergen-Paris
 - Kristiansand-Alicante
 - Stavanger-Roma
 - Stavanger-Paris



forced to cut costs

- SAS was a high cost firm, even compared with other airlines with a network
- *SAS Turnaround* program from 2002 for SAS group
 - 14 BNOK annually cost reduction from 2006 and onwards
 - A reduction in unit costs with 30 %
- Restructuring also in Norway
 - Cost savings on all routes, also those with no competition at all

The airline industry: Benefits for the passengers

- Competition on nine domestic routes
- New direct routes to Europe from several cities
- SAS introduced one way tickets
- A 20 % price reduction leads to approximately 2 BNOK in lower costs for the passengers
 - Oslo-Tromsø round trip: A family of four pays 3-4000 NOK less in may 05 then in may 04
- In addition, gains from new routes and the freedom to choose



The electricity market

- The electricity market was deregulated in the early 1990's.
- There are approx. 30 nation-wide suppliers to households and households can switch supplier costlessly.
- NCA publishes a price survey on its web-site.
- Most of the time here is a well-performing Nordic (wholesale) market is established.
- 2002: NCA stopped/intervened in two acquisitions/mergers carried out by STATKRAFT (a major, fully state-owned electricity producer) due to the strengthening of a significant restriction of competition.

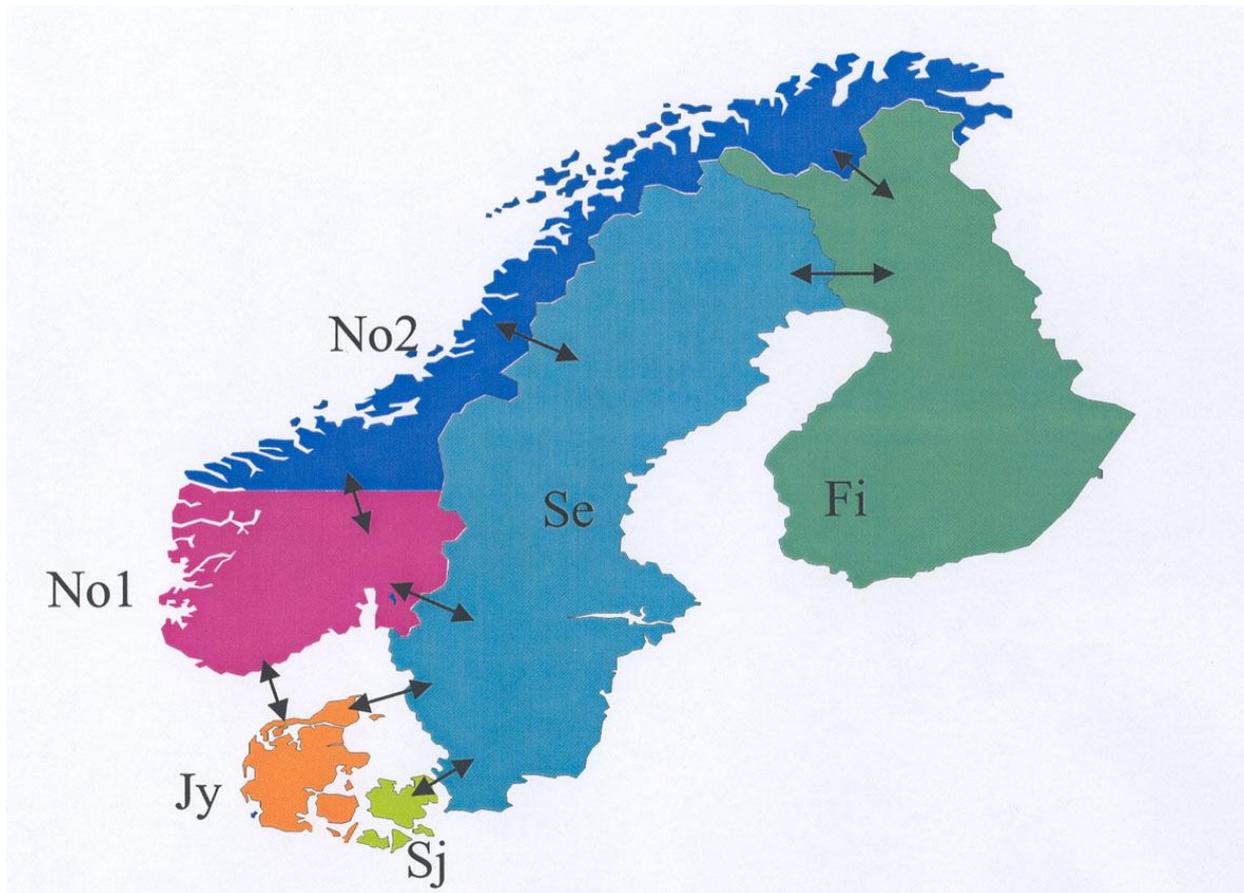


Initiativ fra Konkurransetilsynet i engrosmarkedet

- Inngrep mot Statkrafts oppkjøp av Agder Energi og TEV
- Etablering av system for markedsovervåkning
- Nordisk rapport om kraftmarkedet
- Samarbeid med NVE og Kredittilsynet
- Samarbeid med andre lands konkurransemyndigheter og Kommisjonen



Geografiske markeder



Market shares in the Nordic area

- Vattenfall 19 %
- Fortum 16 %
- Statkraft 12 %
- Sydkraft 8 %
- DONG (Elsam and Energi E2) 7 %
- Teollisuuden Voima 4 %
- E-CO 3 %
- Norsk Hydro 3 %



Market shares in Norway

- Statkraft 32,8 %
- Norsk Hydro 5,7 %
- BKK 5,7 %
- E-CO 5,7 %
- Agder Energi 5,5 %
- Lyse Produksjon 5,0 %
- Skagerak Kraft 3,8 %
- Hafslund 2,2 %
- Nord-Trøndelag Elektrisitetsverk 2,2 %



Markedskonsentrasjonen

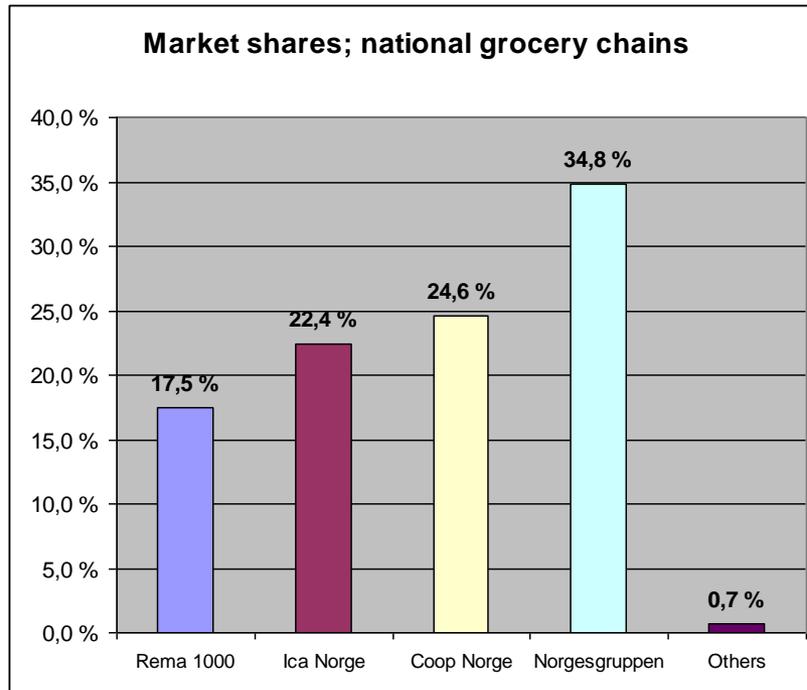
- Hirschman-Herfindahls-indeksen (HHI)

	HHI	HHI ⁱ	HHI ^{ik}
Finland	1766	2037	3005
Norge	1634	1980	3325
Sverige	2893	2923	2988
Danmark	4844	4844	4844
Norden	892	989	1138



The retail grocery market

Market structure



- Oligopolistic market; Four national chains control 99,3 % of the retail grocery market (2004).

- The national chains control procurement, prices and product assortment.

- Several product markets are characterized by few suppliers.

Initiatives to increase competition

Measures to facilitate competition between the grocery chains

- Implementation of *constraints* on the *information exchange* between the four leading grocery chains is under consideration.
 - The exchange of information on past prices and quantities may reduce competition.
- Diminish barriers to entry (including governmental barriers) for new chains.

Counteract market exclusion

- Follow-up cases concerning *exclusive agreements* between retailer and supplier.
- Follow-up cases concerning *loyalty discounts* offered by dominant suppliers and distributors.

Hold the chains responsible

- **Contracts between grocery chains and leading/dominant suppliers are subject to notification to competition authorities.**
- **Annual meetings between competition authorities and chains in order to discuss anti-competitive conditions in the market.**



Thank you for your attention

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