

Mixed Oligopoly: Old and New

Gianni De Fraja

Comments by Director General Knut Eggum Johansen
Norwegian Competition Authority

**The Pros and Cons of Competition in/by
the Public Sector**
Stockholm, November 13



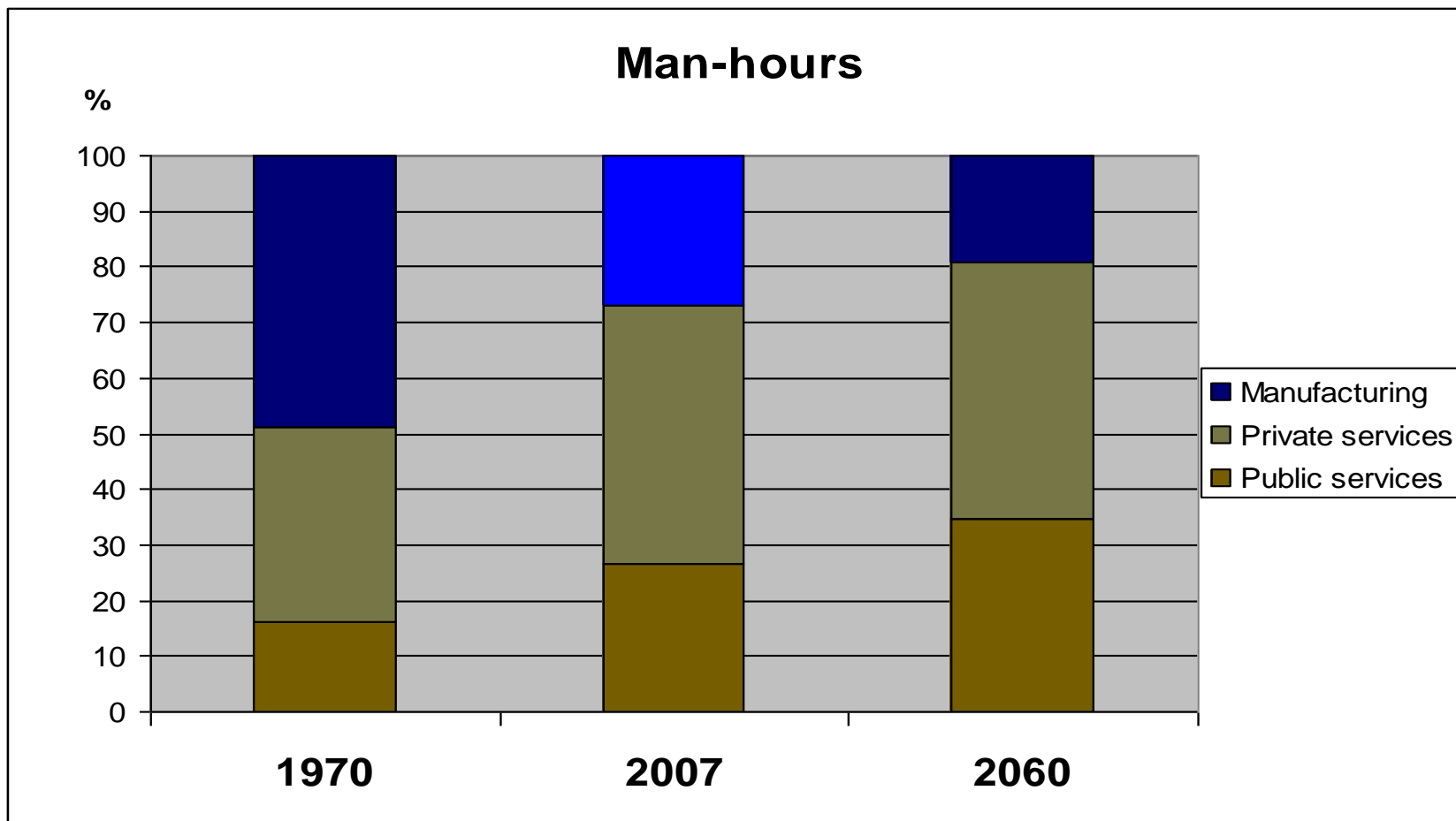
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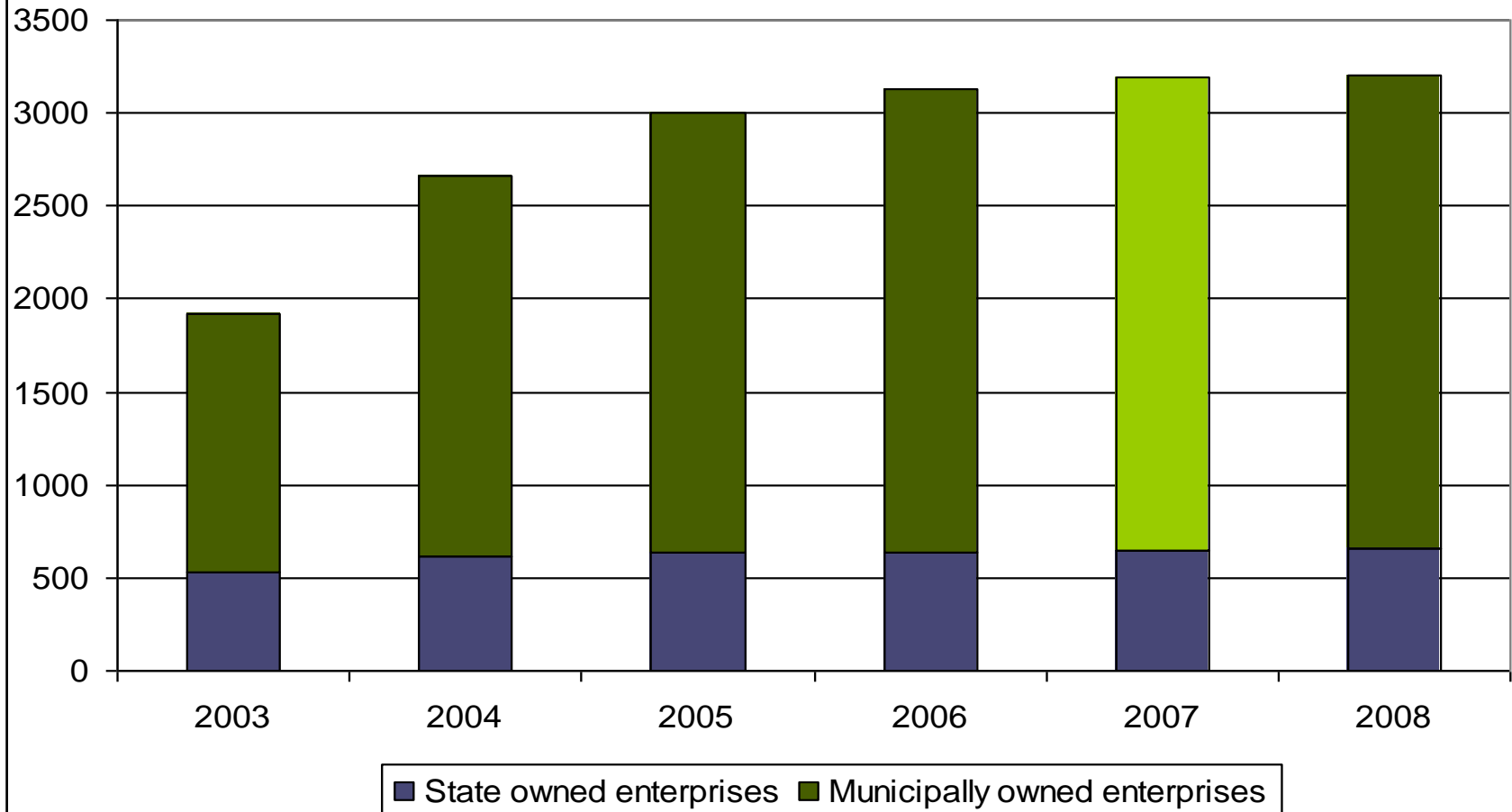
- Prohibition regulations
 - Collusion
 - Abuse of dominance
- Merger control
- Advocacy



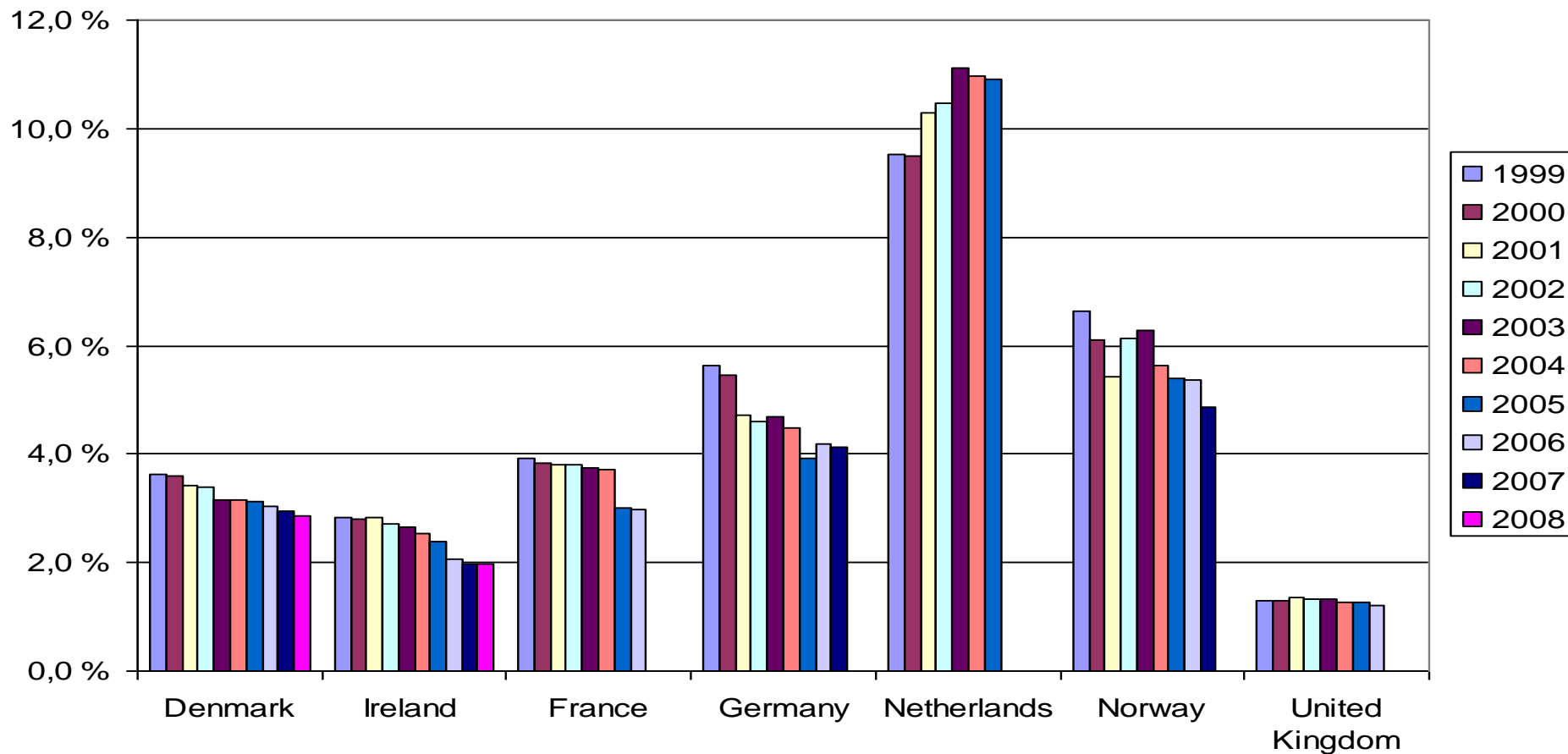
Structural development in Norway



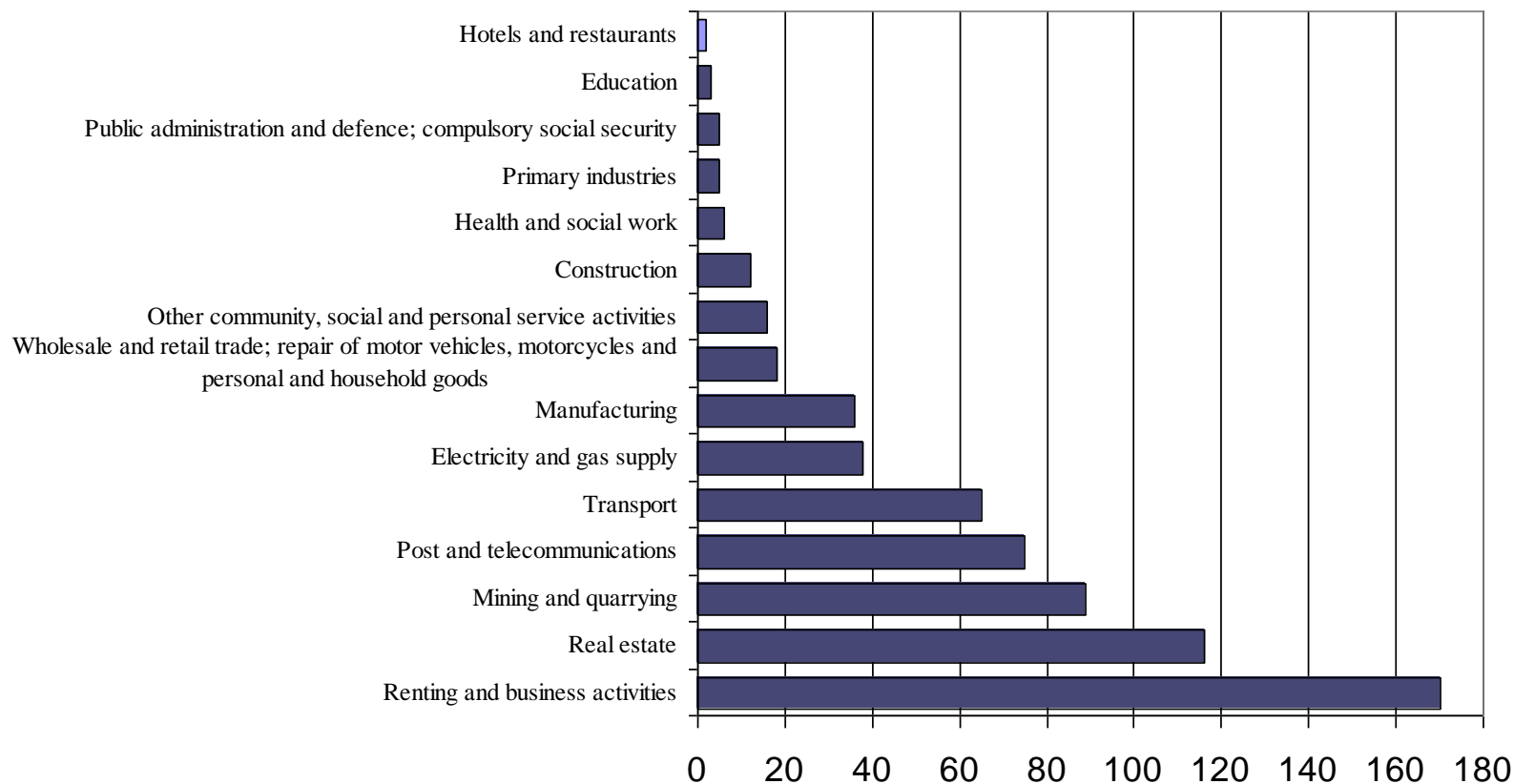
publicly owned companies in Norway 2003-2008



Share of total employment employed in public corporations



General government-owned corporations, by industrial classification in 2008



Some general comments

- These graphs and figures show that De Fraja discusses a highly relevant issue
 - Markets with mixed oligopolies quite common
- The paper presents insight of relevance to the competition authorities regarding i.a.
 - Public firms' incentives for growth
 - The incentives for public banks in a recession
 - The organization of markets involving public services



Section II: Traditional “mixed oligopoly” theory

- Points:
 - Public firms competing in the market with welfare maximizing objective function is “very keen to increase output”
 - This might imply lower prices and benefits to consumers
- This is insight of relevance for competition authorities
 - However, keenness for growth must be kept within the limits of the law, balance regarding Article 81 and 82
 - We must be alert regarding attempts to abuse a dominant position
 - Examples: The SAS case (predation) and several cases involving former postal incumbent monopolies in the Nordic countries



Section III: An instructive very simple banking story

- Point: Public banks in recession more conservative
- Highly relevant, not the least in these times of crises
 - See e.g. advice from the Icelandic Competition Authorities in *Competition Policy and Financial Crises*
 - **Ten principles from the ICA to the state-owned banks - opinion No. 3/2008**



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Report from the Nordic competition authorities No. 1/2009

Competition Policy and Financial Crises

Lessons Learned
and the Way Forward



Section IV: Public-private competition in the welfare state

- Points:
 - Human capital training aspect of public services makes public funding more acceptable, also from competition authorities' point of view
 - De Fraja argues for a voucher scheme
- Important questions that have, and still are heatedly debated:
 - What services should be public? How to finance? How to organize?
 - Who should provide? Public, private ... or both?
- From a competition policy point of view competition neutrality is important:
 - 1. Common legal regime:**
 - Competition law applies fully to public firms operating in a market!
 - 2. Level playing field:**
 - When markets are involved in the provision of public services, competition between private and public firms must be on equal terms!



Section IV: Public-private competition in the welfare state

- Vouchers definitely an interesting tool. Experience with this in Norway in e.g.:
 - Specialist health care
 - Nursing and care for elderly
 - Schools
- But all problems are not solved with vouchers
- The competition authorities must be alert to assure competition on equal terms
- The NCA have several **tools** (§9e and §14) to contribute to a level playing field
- ... and we have had several **cases**, for instance regarding waste collection



A question mark

- A quote from the introduction:
 - "From a competition policy point of view the issue should be whether or not a firm's alleged anti-competitive behaviour is compatible with its objective function" (page 3)
- This is not a very practicable advice for competition policy
- Competition law well adapted to handle cases when the behaviour of a public - as well as a private - firm benefits consumers
 - Article 81(3) and the fair share for consumers requirement



Summarizing comments with three questions

- Objective function:
 - How should competition authorities take the objective function of the public enterprises into account in enforcement in practice?
- Banks:
 - What are the advices regarding (temporary) publicly owned banks in times of crisis?
- Vouchers:
 - What if competition between public and private providers of public services are on other dimensions than price?
 - Public provider often capacity constrained and competition is on i.a. waiting times

