Department for Business Innovation & Skills

BIS PERFORMANCE INDICATORS

The value of the consumer benefits of the competition regime

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The value of the consumer benefits of the competition regime

Why is this indicator important?

Where markets work well, they provide strong incentives for good performance - encouraging firms to improve productivity, to reduce prices and to innovate; whilst rewarding consumers with lower prices, higher quality, and wider choice.

However, markets can and do fail. Competition policy aims to ensure that the markets work efficiently and to avoid market failures, most notably the harm that can come from market power. Market power arises when one or a small number of firms dominate a market and it is difficult for other firms to enter. It leads to less innovation, higher prices, lower choice, and lower quality than would result from efficient competition.

The monitoring and enforcement activities of the UK's competition authorities should mean that action is taken to avoid or address these issues. This indicator provides a measure of their success by estimating the additional costs consumers would have paid if the market had not been working efficiently.

In April 2014 the UK's competition regime was reformed with a new unified competition body, the Competition and Markets Authority (CMA).1 The CMA took over the competition functions of the Competition Commission (CC) and the Office of Fair Trading (OFT). The new authority will be the UK's unitary body responsible for promoting competition across the economy. It will work in the interests of consumers and businesses, operating with flexibility and with a more streamlined approach to decision making.

[1] The figures in this report refer to 2013/14 and so do not cover the CMA

How are we performing?

Direct financial benefits to consumers of competition regime (£m)

Year	09/10	10/11	11/12	12/13	13/14
Competition Enforcement (1)	84	83	151	136	151
Mergers (2)	310	127	11	25	24
Markets (3)	345	479	648	437	400
Total	**739**	**689**	**810**	**598**	**575**

1) 'Competition enforcement' is the investigation of cartels and other commercial agreements, and abuses of dominant position in markets.
2) 'Mergers' refers to proposed mergers abandoned on referral to the Competition Commission or those blocked or amended by the CC.
3) 'Markets' are examinations into the causes of why particular markets are not working well for consumers, leading to proposals as to how they might be made to work better. These market studies take an overview of regulatory and other economic drivers in a market and patterns of consumer and business behaviour.

Source: OFT Positive Impact report and CC figures

The OFT and Competition Commission estimate that the competition regime produced direct benefits to consumers of around £575 million in 2012/13. This figure includes only direct financial savings to consumers and does not account for wider effects, such as any impact on productivity or the deterrence effect of the OFT and CC's work or the wider competition and consumer regime.

The overall impact estimate is roughly the same as the £598 million in 2012/13. The indicator has fallen from £810m in 2011/12. This fall is the result of the high impact 2009/10 Groceries investigation dropping out of the three year rolling average. The estimated benefits of competition enforcement have risen slightly. Estimated merger benefits have stay roughly the same.

What will influence this indicator?

The indicator will vary depending on the mix of casework by the competition bodies. For example, the benefits to consumers from mergers work is in part determined by the volume of merger activity and the scale of the mergers proposed.

The OFT is currently considered to be a world leader in the measurement of consumer benefits. However, this is a relatively recent measure, therefore subject to methodological improvements. The department will continue to ensure that the most robust methodology is used to assess consumer benefits.

What is BIS's role?

The Secretary of State for Business, Innovation and Skills sets the overall policy framework for competition, which is regulated by the UK's independent competition authorities. Following the creation of the CMA, there are now three main competition bodies that are responsible for investigating and enforcing decisions on competition matters in the UK market:

- The Competition and Markets Authority is the UK's main competition authority. It is responsible for:
  - investigating mergers
  - conducting market studies and investigations
  - investigating anti-competitive agreements and abuses of dominant positions
  - prosecuting individuals involved in cartels
  - co-operating with sector regulators and encouraging them to use their competition powers
- The Competition Appeal Tribunal is a specialist judicial body whose function is to hear and rule on appeals of decisions made by the competition authorities.
- The European Commission (Directorate General for Competition) has powers to act on certain large mergers with a European dimension.

Sector regulators also have a role through concurrency powers. For example, Ofcom referred the Pay-TV movies market to the CC and has used its competition powers in relation to BT (with the creation of BT Openreach) and access to Satellite Sports channels. The competition work of the sector regulators, including investigations carried out by CC following referral from regulators, is not included in the financial benefit estimates given above.

Indicator definition

The consumer benefits of the work of both the Competition Commission (CC) and the Office of Fair Trading (OFT) were calculated by the bodies and published in or alongside their annual reports. The figures above for the consumer benefits of their combined competition work are from the OFT Positive Impact report. The figures take account of the overlap of work between the two bodies, but do not include referrals to the CC from other regulators. The indicator is an estimate of direct financial benefits to consumers from price reductions, improvements in quality and choice, time savings and better informed consumer choices.

Results are annual estimates averaged over a three-year period.

Methodology

Total consumer benefits from competition policy is calculated by the OFT on an annual basis. Full details on the methodology in use is available here.

It should be noted that consumer benefits may be underestimated by the current methodology:

consumer benefits from mergers and competition enforcement do not include benefits from deterrence, which are considered to be much greater than the direct static benefits estimated; The indirect benefits of deterrence have been estimated by Deloitte in 2007 and can be found here: 'The deterrent effect of competition enforcement by the OFT'.

- Consumers' benefits for markets work relate to the scope of harm in the market that have been investigated.

The OFT methodology was assessed independently in January 2010 by Professor Stephen Davies and is available here: 'A Review of OFT's Impact Estimation Methods'.

Further Information

The last report from OFT is available here (March 2014):

http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.oft.gov.uk/shared_oft/reports/Evaluating-OFTs-work/OFT1532.pdf

Who are our partners?

Competition and Markets Authority

Related indicators

Other competition indicators available focus on assessing the performance of competition agencies rather than the competition regime. The UK competition authorities are generally well placed in international rankings.

Of particular interest, the Global Competition Review's annual ratings of competition agencies for 2014 gave the Competition Commission four and a half stars and the OFT four stars.

BIS commissioned a Peer Review of Competition Regime in 2007, which found the UK competition regime to be third among the regimes assessed, behind USA and Germany.

Status

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