

COMPETITION IN RECESSION

A Members Roundtable Meeting held at the Competition Commission, 30 March 2009

Foreword by Peter Freeman, Competition Commission Chairman

The current financial and economic crisis has deeply affected the global economy and prompted many countries across the world to examine many areas of policy. Most governments and competition authorities are thinking hard about how they should conduct competition policy in the crisis. There are many conflicting priorities in the current economic climate and some policy requirements conflict with competition objectives. The task of assessing these conflicts and working out how to balance the conflicting priorities is generally a task for government rather than for the competition authorities themselves. But one of our tasks is to emphasize that competition remains as important in the difficult times we face now as it was before.

The breadth and experience of the membership of Competition Commission (CC) makes it particularly well placed to assist in this exercise. The Roundtable covered by the papers we are publishing today is one of the CC's contributions and complements our other work and public statements. This Roundtable was attended by most of the CC's 45 members, by two distinguished external competition economists, Sir John Vickers and Dr Mark Williams, and by representatives from other authorities, including Philip Collins, Chairman, and Dr John Fingleton, Chief Executive of the Office of Fair Trading (OFT). The Roundtable assessed how the current crisis might affect the application of competition policy in the UK and the work of the CC more specifically. Participants were asked to put forward a range of differing views to facilitate a full debate.

The Roundtable covered four broad topics:

- (1) the origins of the current crisis;
- (2) the implications of the crisis for competition policy in the financial sector;
- (3) the implications of the crisis for competition policy in the broader economy; and
- (4) what the position of the CC should be during the current crisis.

The origins of the current crisis

The discussion on the first topic, led by Sir John Vickers, Dr Mark Williams and Christopher Smallwood, a CC member, reviewed the macro-economic origins of the current crisis and emphasized the scale and seriousness of what has occurred and its likely extended duration. The purpose of this discussion was to identify the causes, so far as possible, in order to help avoid misdirected measures in response. There was no sense from the discussion that the crisis was caused by competition, or by 'too much' competition.

The implications of the crisis for competition policy in the financial sector

This part of the discussion, led by Dr John Fingleton of the OFT, Dr Peter Davis, a CC Deputy Chairman, and Professor Alan Gregory, a CC member, looked at the particular issues of applying competition in the financial sector. There was recognition of the special features of the sector but also a determination that the need to redirect the focus of regulation did not remove the need for strong and effective competition.

The implications of the crisis for competition policy in the broader economy

Here Professors Mike Waterson and Bruce Lyons, both CC members, considered the implications of the crisis for the wider economy. The features specific to the financial sector, in particular the danger of systemic risk, were seen as largely absent from the broader economy. Pressures to relax or modify the application of competition policy in the short term were recognized as real and powerful as was the need to resist them.

What the position of the CC should be during the current crisis

Finally, Christopher Clarke and Diana Guy, both CC Deputy Chairmen, and Rachel Merelie, the CC's Senior Inquiry Director, led a discussion on what the CC's position should be in this situation. Of course, the biggest impact that the CC makes is through its decisions and these have to remain effective and relevant, but we also have to recognize the inherent uncertainties arising from the current crisis. This applies both to analysis and to process. Our analysis will have to recognize that many markets face unusual, as well as fast-changing, circumstances. This will be important not only in reaching a decision on whether there is a competition problem but also in assessing what remedies to impose. Equally, our processes must ensure that, as a public body, we carry out our functions in a way that minimizes both public and private costs as well as being flexible enough to accommodate the unusual situations which many face us. This means a continued effort to reduce both the time taken to reach our decisions and the cost, to ourselves and to the parties that are involved, as well as a realistic approach in relation to the imposition of remedies.

So we have two tasks: first, to keep reminding governments, consumers and businesses that competition is not just a policy for the good times; and second, to carry on our work in making thorough and authoritative decisions. In doing this, whilst we should not for one moment depart from the general principles that underpin competition policy, we should recognize the reality and uncertainty of many markets that are affected by the current crisis and work firmly but pragmatically to ensure the continued relevance and effectiveness of our actions.

Peter Freeman