



# **Competition Report 2008**

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# Preface

It is a pleasure for me to present Competition Report 2008.

The interest in the analyses and recommendations in the report has been considerable, already prior to publication. This seems to indicate that both the media and society are aware of the overall importance of intense competition.

Analyses in this year's report show that competition has improved slightly from 2000 to 2005. It is the Government's objective that, by 2010, competition in Denmark is on a level with that of the top-ranked OECD countries.

It is my hope that Competition Report 2008 will help push competition in the right direction.

Agnete Gersing  
Director General



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# Chapter 1

## Main Conclusions

### 1.1 INTRODUCTION

'It is the Danish Competition Authority's vision that consumers have access to a wide range of goods and services at the lowest prices possible given the quality.'

The Danish Competition Authority is striving to implement its vision in various areas. The competition Act is reinforced by tracking down and taking legal action against illegal and anti-competitive conduct. The Danish Competition Authority is striving to minimize the scope of anti-competitive regulation, to promote competition in the public sector and to stimulate a prosperous competition culture in Denmark, in general.

In its annual Competition Report, the Danish Competition Authority takes stock of the competitive situation and focuses on selected areas in Danish economy with inadequate competition.

This year's Competition Report contains 4 analytic chapters:

- Competitiveness in Denmark  
– what is the present status?
- Competition in the Taxi Industry  
– is there a need of modernizing the rules?
- Competition for Administration of Pensions  
– is competition adequate?
- Competition in the Retail Market for Electricity  
– how can competition be improved?

## Box 1.1: Main Conclusions

### Competitiveness in Denmark

- Competition has improved slightly from 2000-2005, primarily in the trades with the most substantial competitive problems.
- Danish consumer prices are still approximately 8 per cent higher than those in the comparable EU countries. An average Dane pays approximately 10,000 DKK more on purchases of goods and services.
- 35 trades are showing signs of substantial competitive problems – one trade less than previous year. The 35 trades constitute approximately 12 per cent of the Danish economy. To a great extent, the competitive problems are due to public regulation.
- During the recent 10 years, there has only been a slight increase in the State's and the municipalities' use of private suppliers.

### Competition in the Taxi Industry

- The taxi industry is heavily subsidized. In 2006, the industry received subsidies equivalent to 240,000 DKK per taxi.
- The taxi industry is highly regulated and the regulation is anti-competitive.
- Taxi driving is geographically limited and there are limitations on the number of licences granted.
- The special rules and regulation for selling a used taxi cab encourage the taxi cab owners to buy big and expensive cars in favour of smaller cars and are, thus, putting a load on the environment.

### Competition for Administration of Pensions

- Competition in the market for administration of pensions is, as a whole, inefficient.
- The administration of pensions is characterized by economies of scale. A series of minor labour market-related pension institutes do not have the adequate size to reap the benefits of the economies of scale.
- The Danes experience a lack of transparency as regards their pensions. They find it difficult to compare costs and return, across the pension institutes.
- Tax subsidies for administration of pensions reduce the encouragement of keeping down the administration costs.
- The framework of the so-called average interest products has a negative effect as regards the customers' urge for switching pension institute.

### Competition in the Retail Market for Electricity

- Only few customers make use of the option to switch electricity supplier.
- The consumers are not familiar with the electricity prices, and the majority does not have the necessary information to assess whether it is worth switching supplier.
- Different access barriers make it difficult for new companies to enter the market to supply the customers with electricity.

## 1.2 COMPETITIVENESS IN DENMARK

It is part of the Government's globalization strategy that competition in Denmark is on a level with that of the top-ranked OECD countries.

It is difficult to measure competition. Therefore, the Danish Competition Authority uses a series of different indicators that help give a clearer overall picture of the competitiveness in Denmark.

Analyses performed by the Danish Competition Authority indicate that the pressure of competition in Denmark has improved slightly from 2000-2005, primarily in the trades with the most substantial competitive problems.

Danish prices are high. Compared with other EU countries (EU9), consumer prices in 2006 were approximately 24 per cent higher than the average level. Adjusted for indirect taxes and cost-of-living index, Danish consumer prices in 2006 were approximately 8 per cent higher than those of the EU9 average level. It is status quo compared to 2005.

Among other things, the price difference relates to the fact that competition in Denmark is not as intense as in the other EU9 countries, but differences in consumer preferences, shop and sale structure including quality might also be part of the explanation.

Without the price difference of 8 per cent, an average Dane would annually save approximately 10,000 DKK on purchases of goods and services.

This year, the number of trades showing signs of substantial competitive problems constitutes 35, i.e. one trade less than in last year's statement. It is the Government's target that by 2010 the number of trades showing signs of substantial competitive problems constitutes no more than 32 trades, equivalent to a halving compared to 2001.

The Ministry of Economic and Business Affairs has set a supplementary target that the part of trades showing signs of substantial competitive problems must constitute no more than 10 per cent of the Danish economy by 2015, measured by the gross value increment. This year, the part constitutes approximately 12 per cent of the gross value increment.

As for the majority of the trades selected, the competitive problems are, to a greater or lesser extent, due to public regulation as, for instance, in the form of access barriers, price regulation and limitation of number.

Compared to the other OECD countries, the Danish regulation is less anti-competitive. Among 30 OECD countries, only 4 countries in 2003 had less anti-competitive regulation than Denmark. However, this does not apply to all areas. The retail trade is an example proving that Denmark is more regulated than the majority of the OECD countries. It relates, among other things, to the Shops Act and to the Planning Act.

As regards a more efficient competition, factors such as competition culture, public regulation, governmental tools and the Competition Act come into play. In recent years, several tightenings of the Competition Act have been performed, and a continuous work is being done to ensure that the Danish Competition Act is as efficient as possible.

The Government has appointed a committee to assess Danish merger control. The target is to ensure that merger control in Denmark is equally efficient as that of comparable countries. At the same time, it is worth investigating whether the Danish sanction level is adequate.

The public sector constitutes a substantial part of Danish economy. Subsequently, it is crucial that the public sector is exposed to adequate competition. Assignments in the public sector can and must be exposed to still fiercer competition.

The share of public purchases as regards EU procurement in Denmark is lower than in the EU, as a whole, and in the recent 10 years, there has only been a slight increase in both the State's and the municipalities' use of private suppliers.

The objective of the municipal agreements, that 25 per cent of the municipal assignments in 2010 must be exposed to competition, presupposes a sharp rise in contestability, in the years to come.

The new municipality structure, containing larger municipalities, form, as the point of departure, a solid basis for intensified contestability, but till now, there has not been a significant connection between community size and the scope of contestability. Thus, increased focus is required if the objective, set by the municipalities, is fulfilled.

The Government has, as part of the quality reform, decided to appoint a Procurement Council with the purpose of promoting competition for public assignments.

### **1.3 COMPETITION IN THE TAXI INDUSTRY**

The regulation of the taxi industry is anti-competitive. Various rules are individually anti-competitive and together they reinforce the mutual anti-competitive im-

pacts. Among other things, the rules entail that, in practice, taxi driving is performed primarily in expensive cars at the highest price allowed.

The regulation applicable for the taxi industry has certain common features similar to the rules applicable for coach driving back in 1915. The Danish Competition Authority finds that there is a need for a modernization of the regulation.

In 2006 the taxi industry had a turnover between 4.5 and 5 billion DKK. At the same time, the industry, as a whole, received subsidies of approximately 1.4 billion DKK due to favourable regulation on VAT and other indirect taxes, equivalent to 240,000 DKK per taxi.

The individual municipal council determines the number of taxies within a municipality, including the grant of licences. The municipalities often receive counselling from the industry itself as regards determining the number of taxies. The established taxi cab owners have financial interests in keeping the number of licences down. The municipalities only grant a licence to 1 out of 4 applicants.

Taxi driving is geographically limited to the municipality granting the license and on a limited basis to and from the municipality.

The rules imply that the supply of taxi driving does not fully meet customers' requirements and is, thus, anti-competitive. The limitation on the number of taxies prevents new taxi cab owners from entering the market and prevents existing taxi cab owners from expanding their business. Simultaneously, the taxi cab owners are not exposed to competition by taxi cab owners from other municipalities due to the geographical limitation.

The municipal councils set maximum fares for taxi driving. In this matter the municipalities are counselled by the industry itself, too. The purpose of maximum fares is to protect the customers against too high prices. However, in practice, maximum fares work as fixed prices and are therefore anti-competitive.

In municipalities with 10 taxies or more, the taxi cab owners are required to establish and join a radio dispatch network. From here, the taxi rides are distributed on equal terms, which mean that, in practice, the affiliated taxi cab owners are not competing on price and quality.

The vehicle registration fee is 20 per cent when buying a new taxi. After 2-3 years and a certain number of kilometres driven, a taxi cab owner is allowed to sell the taxi to private use, duty-free. The rules and regulations for selling a used taxi cab entails that, by and large, in terms of book depreciation, the costs of buying an expensive car and buying a cheaper car are almost the same. The regulation encour-

ages the taxi cab owners to buy big and expensive cars in favour of smaller cars, thus putting a load on the environment.

It is recommended:

- To consider modernizing the regulation of the taxi industry to enhance competition in the industry to the benefit of the customers. The individual impacts as a result of a modernization are, to a certain extent, mutually interdependent and should therefore be considered in an overall perspective.

#### **1.4 COMPETITION FOR ADMINISTRATION OF PENSIONS**

Efficient administration of the Danes' pension savings is of increased importance. The pension payments increase and are more than doubled since 1998. On an average, from the age of 18, each Dane had a pension saving equivalent to 500,000 DKK in 2006 and paid approximately 30,000 DKK annually. In 2006, the total accumulated pension assets added up to a total of 2.1 billion DKK.

Various factors, difficult to change, are anti-competitive in the market for administration of pensions. Pension schemes are relatively complex products. The majority of the pension schemes is labour market pensions, agreed upon through a collective agreement and, thus, cannot be moved individually. Lastly, it cannot be ruled out that public regulation, as for instance demands on capital adequacy requirements, constitutes an access barrier.

There are various indications showing that competition for administration of pensions is inefficient, as a whole.

The administration costs differ greatly between the various pension schemes. On an average, the 5 pension institutes with the lowest running costs were almost 70 per cent cheaper than the average level of the 5 most costly pension institutes, equivalent to approximately 900 DKK a year. To a pension customer, over a period of 40 years, it amounts to a total difference of approximately 68,000 DKK in accumulated pension assets. If competition were intense, the highly costly pension institutes were not likely to stay in business.

The administration of pensions is characterized by economies of scale. A series of minor labour market related pension institutes are not sufficiently large to reap the benefit from these economies of scale.

The administration costs for pension are subsidized through tax deduction. Tax deduction makes the pension customers less sensitive to high administration costs.

Only few customers switch pension institute. Apart from contractual obligations, a reason might be that customers with the so-called average interest products, in connection with a transfer, forfeit their right to a share of the collective reserves, contributed to by the customers.

The contractual obligations of the individual customer and the absence of an intense competition imply that an enhanced transparency is crucial in relation to return and costs as regards the customers' option of gaining insight into the efficiency of the administration. In 2007, Forsikring & Pension (F&P) seized an initiative that gives the customers insight into their own pension costs. However, it would be desirable if, additionally, customers and others were able to compare both return and costs across the pension institutes. For this purpose, detailed and comparable information by the pension institutes is required.

To promote competition and efficiency, it is recommended:

- That the boards of the collective agreement-based pension schemes currently assess if the administration of pensions is competitive regarding other players in the market, for instance through benchmarking as well as inviting tenders, and, thus, account for the key conclusions to the customers.
- That the possibilities of reducing the tax subsidies for the administration of pensions are considered together with a tax reform.
- That the pension institutes offer average interest pensions with a substantial element of individual reserves that the customers can bring along by a transfer – an option already applicable for a few individual institutes or is about to be implemented.
- That the pension institutes publish detailed information on return and costs in relation to their investment activities, enabling a comparison across the pension institutes – an option already applicable for the investment funds.
- That the pension institutes publish the customers' costs for risk-premium interest of the equity in a way that enables a comparison across the pension institutes.
- That the pension trade – in continuation of F&P's recent initiative which gives the customers an insight into their pension costs – initiates that information about the pension institutes' administration costs, investment return and costs including risk-premium interest of the equity is made available in a relevant and comparable way on the internet.

## **1.5 COMPETITION IN THE RETAIL MARKET FOR ELECTRICITY**

Since 1 January 2003, the customers have free choice of electricity supplier. Nevertheless, only 2 per cent of the households have switched electricity supplier

since the liberalization. The remaining households still purchase their electricity from their usual supplier, who has the so-called supply obligation.

The consumers are not familiar with the electricity prices and a great part is not able to assess if it is worth switching supplier.

In fully liberalized markets, the authorities, generally, do not regulate the end user prices, as a regulation interferes with the market mechanisms that help keep prices down, including channelling investments in the right direction. Accordingly, the Commission has raised doubts whether the internal market for electricity will be implemented if consumer prices are still regulated in certain Member States.

It is difficult for new electricity suppliers to enter the market and to compete with the established companies already being granted a license for supply obligation. To achieve a cost-effective profit, a new supplier must be of substantial size and is, thus, compelled to focus on customers in a vast geographical area – perhaps the entire country. The new supplier must, therefore, exchange data with up to 100 network operators. It is laborious as well as costly.

To intensify competition in the retail market, the households must be more alert of electricity prices and, to a greater extent, respond to price differences between the electricity suppliers.

As regards the suppliers, there is a need of reducing the access barriers for new electricity suppliers. The first steps have been taken to set up a datahub, i.e. a central and uniform collector of all relevant consumption data. A datahub facilitates the data communication between electricity supplier and network operator making it far easier for new electricity suppliers to enter the market.

The default supplier system is, in its present form, anti-competitive. Instead, it should be replaced by a so-called ‘supplier of last resort system’, whereby consumers, who are not supplied by other companies, for instance, in case of the present supplier going bankrupt or because of disagreement between consumer and former supplier, will receive electricity from this supplier. The choice of the supplier in question should be put out to tender.

It is recommended:

- To initiate moves to intensify consumer knowledge of the electricity prices, for instance by installing smart meters with price signal information.
- To set up a ‘datahub’ to facilitate data communication between the electricity suppliers and the network operators and, accordingly, break down the greatest entry barriers in the market.

- To repeal the price regulation, only when the customers' price knowledge has improved by installing smart meters with price signal information or other similar initiatives, and a datahub, facilitating the accessibility for alternative suppliers to enter the market, is set up.
- To consider replacing the present default supplier system with a system of supply obligation suppliers of last resort and that this assignment, eventually, is put out to tender.