

Uk competition policy



This essay discusses the UK competition policy in reference to perfect competition and monopolies. It uses the principles of these two techniques to describe and argue the British Airport Authority (BAA) and Tesco PLC cases investigated by the competition commission. It looks at the effects of perfect competition and monopolies and relates them to the reasons why the BAA and Tesco PLC are under review.

Competition is where businesses in the same market offer the same products and services to a customer who has a demand. Competition makes firms offer their services and products at a lower price which will help the customer that is buying the service.

UK Competition policy was introduced so that firms can compete with each other enabling consumers to get the best goods and services from the competing market. It was also introduced to enable markets to work better and achieve a good level of economic efficiency and welfare.

The UK Competition policy provides an environment for competition to occur. It enables this in four ways; more efficiency for the economy, Lower prices for consumers, more innovation and promoting faster economic growth.

The Perfect competition structure describes several firms or sellers in an area or industry competing with each other. However monopoly describes a single seller in a market with a dominant position.

In a perfect competition market, it is easier for new firms to enter the market as there are fewer barriers to entry, for example due to the competing nature of the market, new firms are able to compete on price and service. In

a monopolistic market, new firms have less opportunity to enter as the monopolies usually have higher prices, lower levels of quality of goods and set suppliers, making it difficult for firms to enter. It can be said the monopolistic markets affect the consumer in a negative way due to these reasons.

The profit in short and long run, Perfection competition, in the short run, they are able to earn abnormal profits, but in the long run it's not possible, when existing firms earn profit, new firms and competitors will come into the market and reduce their profits. For monopoly, it's achievable to earn abnormal profits in short and long run, as there are barriers to entry to prevent firms from entering the market. The monopoly supplier will produce lower output and higher price under monopoly than a competitive industry.

Monopoly outcome is less efficient from society's point of view due to the loss of consumer and producer surplus. However, it can be altered as it allows the cost curves under monopoly to be lower because the monopolist may be able to take advantage of economies of scale. Monopoly produces less than perfect competition and therefore creates unemployment of resources. Also, a monopoly makes supernormal profit, which leads to an unequal distribution of income. If charged higher price for producing less, monopoly creates an artificial scarcity, the inefficiency of this is called deadweight loss.

The following discusses the reasons the competition commission investigated BAA and Tesco PLC and provides an insight as to why they could affect their relative markets if allowed to continue onwards as they are at present.

Competition is restricted between Heathrow and non BAA airports due to Heathrow being the only

significant hub airport in the south east and also in the UK due to the wide range of facilities that it has for example it has runways which two of them are full runways, it has broad range of network of international and domestic routes and wide terminals. This is not present in other south east airports so therefore the competition is very limited even for airports for airlines which offer connecting flights.

This means that Heathrow is dominating the market and having the market power and controlling all airports and these are the features that restrict airport competition. Market liberalisation is a way of making markets easier for new companies to enter, and this is what the competition commission is trying to do, and to have other airports competing with them.

Edinburgh and Glasgow are both owned by BAA and that common ownership is affecting competition between these two airports. Evidence was found out that Glasgow compared to Edinburgh was better. But when you compare Glasgow and Edinburgh and Prestwick, they found out Glasgow and Edinburgh were better than Prestwick therefore common ownership could be affecting competition. However if both airports have separate ownership, there is also a possibility of there being more competition through price, investment and innovation.

Planning systems such as creating large new runways and terminals is a way that will restrict and distort competition by acting as a barrier to entry of new airports and expansion of existing airports. This means that it makes it

difficult for new competitors to break into a market; it reduces the risk of new competition for the companies that are already in the market.

Companies may lower their prices to an extent which would harm competitors to operate at a loss. The airport will also have a cost advantage, by making their prices lower, allowing existing monopoly's to cut prices and win on price.

BAA is not sufficiently regulated due to the nature of the airport legal framework, which means that there are no statutory duties on BAA or no economic licence. Having no licences means that BAA is able to act more liberally in the market place. This means that its expenditure, service and business at a whole is not regulated, in turn potentially affecting their customers if the business is acting out of turn.

On the 21st December 09 the BAA won its appeal to not set three of its UK airports, this is not the result that the competition commission would want but it shows the strength of the argument that competition can have in a market place.

The competition commission have found that in the UK groceries industry, retailers have powerful and strong positions in many of local markets.

The Commission found that large retailers such as Tesco PLC could act as a barrier to entry for new firms or existing ones who want to expand by creating costs and risks on smaller retailers and organisations without prior grocery retail experience in the UK. The current grocery markets are highly concentrated and exist in local areas, usually with a defined customer base. Large retailers with price reductions and combined products (i. e. household

shopping and groceries) will outplay those smaller niche grocery retailers which will result in the consumer over time having a few large key players rather than many competing local firms.

The commission policy argues that consumers are affected by local markets being highly concentrated, usually depicting less competition. As there is less competition in highly concentrated markets the Tesco store can potentially earn higher profit margins. This would therefore be detrimental to the consumer.

The essay aimed to depict what competition is and how it affects the consumer when it is restricted or distorted and to see whether perfect competition is better than monopoly. In conclusion I feel that monopolies in markets make competition inefficient typically distorting the market and affecting the consumer in a detrimental way. It also affects the overall business chain in markets through distorting innovation and further enhancements as these monopolies are able to remain in powerful position due to the lack of competition. Having competition in a market enables new companies to enter the market as barriers to entry are removed and it also allows consumers to gain better products and services. BAA have common ownership over airports resulting in better facilities for their airports compared to non BAA one's, affecting the consumer. Having BAA sell off some of their airports will inject competition back in to the market ultimately raising the service to consumers. Tesco PLC was also investigated because it would potentially increase barriers to entry for new firms and massively distort competing local grocery suppliers. I feel that in both cases the

commission was correct in investigating BAA and Tesco as it would ensure competition would thrive in their respective markets.

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