

Unmuddling Merger Markets

Catherine Waddams

The theme of this edition of CCR's newsletter is mergers, with the three main articles providing perspectives on both principles and practice. Bruce Lyons analyses the forces framing the new direction of merger control at the European level, and assesses the substantive reforms taking place, while raising questions about whether they go far enough. Steve Davies provides first reflections on the Competition Commission's analysis of the Safeway takeover possibilities, reflecting on the implications for how many competitors are seen as desirable in such a market and emphasising the importance which the Commission ascribes to potential co-ordinated effects. And John Ashton reports results from his research which call into question some past Competition Commission and Treasury assumptions about the nature of the geographic market for certain banking products, and suggests some alternative measurement tools. Both Ashton and Davies draw attention to important issues in relation to local versus national markets. These pieces reflect the research and practice of the Centre as it continues into its third year, welcoming new members and consolidating and extending its work.

October saw CCR playing a central role in three sets of presentations, two of which related to projects completed since the last edition of the newsletter. Catherine Waddams (CCR) and Diane Sharratt

(Warwick) reported first results from the ESRC funded project on Social Obligations and Economic Regulation with a seminar at UEA to which participants in the research from companies, regulatory, consumer and voluntary bodies were invited. Several members of CCR and others from UEA also attended, providing a wide range of perspectives on the analysis of company interviews and prices charged in different markets which were presented. Some of the project output is already available on CCR's website, and more will be posted there soon. The previous week, Catherine Waddams and Ivan Diaz-Rainey from CCR joined co authors from UEA's School of Environmental Science, the Energy Minister, and Powergen representatives at the launch of Powergen's Energy Monitor, which explores consumer behaviour and attitudes to saving and using energy. And at the beginning of October, CCR organised a very successful seminar, attended by over 50 academics and practitioners on 'Economic Regulation: Beyond Principal Agent Analysis?' at Birkbeck College in London (more on page 7). CCR will be participating in further seminars in the series, supported by the ESRC and jointly convened with Birkbeck College, over the next few months. Earlier on in the summer, links with the Centre on Regulation and Competition, at the University of Manchester, were strengthened when Lindsay Stirton helped to organise a major conference in Manchester, to which CCR members contributed.

Our links with the law faculty have been further strengthened by joint teaching on both the continuing MA in Competition and Regulation Policy and the new LLM in

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International Competition Law and Policy. While each of these courses is based respectively on economics and law, we have enjoyed providing broader perspectives through cross-disciplinary teaching and engaging in debate with each other and the students (more information about the LLM and MA on page 8). We are also delighted to welcome Dan Goyder, former deputy chair of the Monopolies and Mergers Commission and recently retired from Linklaters, to a formal part time appointment to the Norwich Law School and as a member of CCR. Other links with the practice of competition and regulation continue. Since the last newsletter, Bruce Lyons has served on two Competition Commission cases, and Catherine Waddams on one; and Morten Hviid has joined Steve Davies as an adviser to the Office of Fair Trading.

CCR welcomes three other new members this autumn. Tina Chang joins the economics faculty from her PhD studies at Warwick (and describes her interests on page 7). Two new PhD students join the Centre. Andrew Bugg, sponsored by the ESRC, is studying the potential demand and supply of regional foods and Pham Khac is examining the regulation and potential competitiveness of insurance markets. Laurence Mathieu, who has been providing part time research assistance to the Centre, has now joined CCR full time, and is currently analysing data to explore the relationship between company and individual estimates of energy consumption, and determinants of energy demand; she is also analysing the costs of compliance in tax self assessment. Meanwhile page 7 reports the experiences of doctoral students Heather Coles and Chris Wilson at the EARIE conference in Helsinki in the summer.

During the past few months, CCR has started to catalogue its various printed materials, some on permanent loan from the Public Utilities Access Forum and some collected from other sources. We are very grateful for the work which Vinh Sum Chau and Matt Olczak are devoting to this project, and hope our electronic catalogue will be available early in the New Year.

Meanwhile CCR continues to plan for expansion and development when the ESRC funding for the Centre for Competition Policy starts in autumn 2004. While it will be built on the foundations of CCR it will develop in new directions, with a stronger Law element and the development of more explicit political science perspectives. The Centre will expand considerably, with new post doctoral and research assistant posts, more time for established members to devote to the Centre's research programme, and more administrative staff to help organise the expanded activities. Rupert Sheldon has joined the Centre's administrative staff for a few months to help Laurence Wild with the new developments. We will move into newly refurbished dedicated and self contained space (with inspiring views to assist our work still further!) and are looking forward to this new phase in our development. ●

Moving Beyond Economic Gerrymandering: Empirical Quantification of Geographic Markets in Retail Banking

John K. Ashton

Recent CCR research challenges the recent findings of three enquiries by the Treasury¹ and the Competition Commission² that the UK retail banking industry is nationally unified. Using empirical evidence from interest rate data, local market influences are identified which raise serious doubts about whether the market is nationally unified, even within England and Wales.

In contrast to these conclusions, none of the three enquiries (assessing the competitiveness of the industry in two cases, and a potential merger in the third) used empirical evidence to identify the geographic market, despite its importance in their findings. In the report commissioned by the Treasury, Cruickshank states "...[in] a competitive market, significant price differentials between similar products distributed in similar ways are not sustainable. If they did exist, consumers would switch to the cheaper product, and the more expensive would lose sales". Following this reasoning a national market is assumed across the UK with retail banking markets defined in terms of product characteristics alone. In a similar vein, the Competition Commission (2001) enquiry into the potential effects of a merger between two large UK retail banks indicated "... Most of those providing evidence suggested there was a national market (for banking services) referring in particular to uniform pricing across geographical regions". In turn, this enquiry considered England, Scotland and Wales as a unified market. Thirdly, the Competition Commission (2002) assessment of competition in the UK market for banking services offered to small to medium sized enterprises (SME), states the "... existence of national prices does not necessarily mean that there are no local markets The absence of major price differences would not necessarily constitute evidence that there is a single market; it might reflect similar local markets behaving in similar ways". Following this perspective, it was deemed pertinent to view England and Wales as a distinct unified market, and Scotland and Northern Ireland as separate unified markets.

Recent UK legislation (Competition Act 1998 and Enterprise Act 2002) has raised the legal significance of market definition by increasing responsibility and criminal liability for anti competitive behaviour by companies. This shift reflects both greater convergence with European practice and increasing political concerns about the competitiveness of the national economy. If a dominant position is to be identified, or a merger assessed, the relevant market must be defined, and the standards of establishing the relevant markets are becoming more stringent.

A Test of Geographical Market Definition

The standard test used by most European competition or anti-trust authorities to define markets is the SSNIP test which illustrates the effects of a (hypothetical) Small but Significant Non-transitory Increase in Price on the profitability of a (hypothetical) monopolist making that price change. Despite its widespread advocacy as a test for market definition purposes, a major limitation of this test is its hypothetical nature as it is rarely possible to gather the data needed to undertake a SSNIP test. Instead, markets are assessed by the features of the test, such as the reaction of firms to a price change by competitors and consequent influences on product demand. In this spirit, market definition is assessed by examining how the retail interest rates of one firm change in response to a movement in the interest rate of a competitor. A further aspect of this approach is that within markets where market power may be exercised by certain incumbent firms, prices will reflect power across the market by often moving above what could be seen as competitive levels. In partial accommodation of these influences, most incumbents operating in two financial services markets supplied by a relatively high number of firms are assessed. Additionally, interest rates issued by market incumbents which have been open to and have not been open to claims of abusing dominant positions are both included in the assessment. Lastly, the test employed here emphasises the association and dissimilarity between interest rates offered by different firms, as opposed to an assessment of the levels of interest rates themselves.

Tests for this response to a competitor's actions were made in three stages. Initially, measurement of the degree of similarity and dissimilarity between different pairs of daily interest rates issued by different depository institutions was recorded. It is assumed that depository institutions operating in regional or local markets should react to external shocks in a relatively similar way to other depository institutions operating in the same regional market, but there is no relationship if markets are distinct. Daily interest rate data for six years (1995-2000) and 77 firms were analysed in two product groups: instant access deposit accounts and residential mortgages, taking account of different sums deposited and types of customer. Secondly, to identify if pairs of firms both operated in the same market, the distribution of the branch networks was codified by recording within which postcode areas do both the depository institutions have a branch presence as a percentage of all post code areas. This measure of market overlap was then employed to determine how geographically associated are the branch networks of all pairs of firms considered in the study. Lastly, a model was estimated, to test if the degree of geographic market overlap is a significant determinant of the level of similarity and dissimilarity between pairs of interest rate observations.

The results were mixed. For some deposit accounts there is a distinct geographical pattern and for mortgages, small yet significant local market influences are present in all cases examined. Geographical influences are observed to persist throughout the UK mortgage market and in parts of the instant access deposit market, suggesting that the location of branch networks is influential in the interest rate setting policies of depository institutions. These findings contradict the judgments made in the recent 'competition' enquiries of UK retail banking, quoted above, that a national and unified market exists for all retail banking services in the UK; an assumption which may have adversely affected the findings of these reports.

Beyond our banking example, it can be stated that the intuitive definition of markets, with a countrywide coverage of branches or other outlets or even a single pricing policy, as national, is flawed. Where markets are limited by the ability or desire of customers to travel and the distribution of outlets provided by competing suppliers to a market is not uniform, the potential for geographical market influences to develop is present. This point has been recently recognised in the Competition Commission report on the potential for merger of major supermarket chains in the UK³. In this report, an extensive empirical assessment is employed to consider the issue of whether grocery markets are local, regional or national (see also the article by Stephen Davies). Following this informed assessment it is acknowledged in this report that despite substantial market coverage by some supermarket incumbents to the UK market for groceries, the desire of customers to travel only limited distances for groceries presents a market with local as opposed to national or regional characteristics. More generally these conclusions indicate that decisions as to the geographical definition of markets should be examined empirically, particularly given its importance in the new framework of competition law in the UK. Additionally, this short illustration displays that market definition, a subject long overlooked by many academics interested in competition policy, is an area where both assessment of past decisions and examination of present and future decisions should be an important focus for future research activity.

CCR working paper 03-4 reports the full results of John Ashton's analysis on the geographic extent of retail banking markets.

¹ Cruickshank, D. (2000). "Competition in UK banking. A Report to the Chancellor of the Exchequer", The Stationary Office, London.

² Competition Commission (2001). *Lloyds TSB Group plc and Abbey National plc: A Report on the Proposed Merger*, CM 5208, London; and Competition Commission (2002). *The Supply of Banking Services by Clearing Banks to Small and Medium-Sized Enterprises*, CM 5319, London.

³ Competition Commission, (2003) *Safeway plc and Asda Group Limited (owned by Wal-Mart Stores Inc); Wm Morrison Supermarkets PLC; J Sainsbury plc; and Tesco plc: A report on the mergers in contemplation*, CM 26/09/03, London

How Many Sellers do we Need for Effective Competition?

Stephen Davies

The Competition Commission's (CC) recent report¹ on the rival take-over bids for Safeway's retail food business has predictably attracted considerable comment, which, at the time of writing, shows no signs of abating.

In this article, I am not so much concerned with the 'rights' and 'wrongs' of the report, but more with what it reveals about the CC's implicit answer to the question posed in my headline – arguably, the most fundamental one in competition policy. In short, the answer appears to be that three is insufficient, but four is OK.

The National Picture

One can characterise the existing, pre-merger, market structure² (Table 1) as three 'majors', faced by two middle sized and five smaller rivals³. The Hirschman-Herfindahl (HHI) index of concentration, 2127, is comfortably in excess of the OFT's guideline value of 1,800 used to identify 'highly concentrated' markets. The merger situations entailed the acquisition of one of the middle sized firms by each of the majors or the other middle sized player. In all four alternatives, the hypothetical increase in the HHI⁴ would exceed the OFT's guideline value of 50 used to identify 'potential competition concerns'.

	Pre-merger share (%)	Post-merger, if firm acquires Safeway			
		HHI	N (HHI)	Increase in HHI (absolute)	Increase in HHI proportionate (%)
Tesco	32	2893	3.46	766	36
Sainsbury's	23	2665	3.75	538	25
Asda	20	2596	3.85	469	22
Morrisons	7	2290	4.37	163	8
Safeway	12				
Others	7				
HHI index	2127				
HHI Number equivalent	4.70				

Source: derived from Table 2.2 of the CC Report

Table 1 Market shares and concentration.

The HHI index is well understood by economists in academia and the competition agencies, but can sometimes confuse the interested layperson, and so I start by offering two intuitions on the particular numerical values in this case. The **first** involves translating the value of the index into its numbers equivalent form, N(HHI). This is the number of firms which would be needed to record that value, if all those firms were of identical size⁵. In this case, it tells us that the pre-merger market is as concentrated as would be a hypothetical market in which there were only 4.70 (equal sized) firms. This would be reduced by about 1 if Safeway were acquired by Sainsbury's or Asda, rather more than 1 if by Tesco, but only by 0.33 if by Morrisons.

The **second** intuition is provided by calculating the proportionate changes in the HHI index associated with each alternative acquisition. This helps add the following, admittedly purely academic, perspective. In a market supplying an homogeneous product, in which firms compete non-cooperatively a la Cournot, it is easily shown that the industry's aggregate price-cost margin will be equal to the ratio of HHI to the elasticity of demand. Assuming the latter to be roughly constant, a merger will lead to a proportionate increase in the margin exactly equal to the proportionate change in the HHI caused by the merger. Crudely, these increases can be identified with the unilateral effects of the merger, since the Cournot model assumes non-cooperative behaviour. As can be seen from the Table, the proportionate increases in HHI, and the associated price-raising effects of acquisition by all three majors is extremely high, while the Morrisons takeover would result in a rise of only between one fifth and one third as much⁶.

So one way of interpreting the CC's conclusion, that only Morrisons acquisition should be allowed, is that it wished to avoid a post-merger market structure which is more concentrated than would be a market of four equally sized competitors, and, by implication, this is because any other merger might lead to excessive price increases.

Regional Implications

I have so far considered Great Britain as if it were a single market. But, as is well known, any aggregate concentration index may often conceal important differences between different parts of the market (see also article by John Ashton). In some cases, this reflects the fact that an 'industry' in reality comprises a number of different categories of product, each with its own market. 'Pharmaceuticals' is a classic example, being a sector which is not particularly concentrated at the aggregate level, but which includes a number of very distinct product categories (e.g. anti-depressants, cancer drugs, pain-killers etc.), each of which is highly concentrated. In that instance, this is because, for all their size, very few of the world's largest drug companies are able to establish leading positions in all drug categories.

In the case of one-shop supermarkets, there are no such problems with 'product space', but a very important dimension of 'geographical space', since consumers will rarely travel more than a few miles to food-shop. Given the necessary brevity of this article, I will address this largely by discussing broad regional differences, although, as highlighted by the CC, it really requires detailed analysis at the level of the individual locality.

As shown in Table 2, in eight of the ten regions, Tesco takes #1 or #2 place; of these, in the five broadly southern regions, its main rival is Sainsbury's, while in Wales, Scotland and Lancashire, it is Asda. Significantly, in only two of these eight, does a third firm also achieve a share of at least 25% (Safeway in the South-West and Scotland). In the two remaining regions,

	Leaders (>20%), pre-merger			Change in Morrison's/Safeway's		Change in N (HHI)
				share	rank	
National	T:32	S:23	A:20	12 to 19	n.c.:#4	4.7 to 4.4
No substantive change						
South	T:40	S:28		n.c.:10	n.c.:#4	n.c.:3.7
South-West	T:39	S:24	SAFE:20	n.c.:20	n.c.:#3	n.c.:3.8
London	S:37	T:33		9 to 10	n.c.:#4	n.c.:3.9
East	T:44	S:24		9 to 15	n.c.:#3	3.7 to 3.6
Wales	T:41	A:23		14 to 15	n.c.:#4	3.8 to 3.7
Scotland	A:32	T:31	SAFE:25	25 to 26	n.c.:#3	3.8 to 3.7
Moves up into strong 3rd place						
Midlands	T:29	S:25		12 to 22	#4 to #3	4.8 to 4.3
Lancs	A:31	T:29		15 to 24	n.c.:#3	4.3 to 3.9
Acquires/consolidates 1st place						
North-East	A:34	MORR:25		25 to 42	#2 to #1	4.4 to 3.2
Yorks	MORR:32	A:22	T:22	32 to 40	n.c.:#1	4.6 to 3.7

Source: author's own calculations, based on various tables from CC's Report.
Key: T = Tesco, S = Sainsbury's, A = Asda, MORR=Morrison's, SAFE = Safeway
n.c. indicates no change

* the initial share shown is the larger of Morrison's' and Safeway's

Table 2 The regional implications of the Morrison's takeover: market shares, ranks and concentration.

North-East and Yorkshire, the two leading positions are held by Asda and Morrison's, with only Tesco (in Yorkshire) also achieving 20%. In other words, typically, individual regions are more concentrated than is the country as a whole: indeed, in the six most concentrated, the N(HHI) is in the range 3.7 to 3.9, roughly one firm fewer than the national figure.

Turning to the likely effects of the Morrison's-Safeway merger, in none of the six most concentrated regions would there be any substantive change. In the Midlands and Lancashire, the merger would move Morrison's up to a strong third place and bring concentration closer in line with the national picture (although the Midlands would remain significantly less concentrated than any other region). This leaves only the North-East and Yorkshire as obvious 'worries': in Yorkshire, there would be an equivalent loss of one full firm, transforming it from one of the least concentrated regions to rough parity with most other regions; in the North-East, the change would be even larger, and the region would become easily the most concentrated, with scarcely more than three equivalent firms.

The last paragraph is of course, purely hypothetical: at the time of writing, the merger has yet to take place, and, even if it does, the CC has required Morrison's to divest "one-stop grocery stores in the 48 localities in which adverse effects of the merger have been identified" (CC, p.10).¹ This amounts to about 10% of Safeway's total number of stores, and while my knowledge of British geography is too shaky to identify just how many of these stores are located in these two

regions, it would appear that many are.

Assuming then that these divestments would, indeed, soften the increase in concentration, especially in the North-East, one might typify the CC's stance as a refusal to allow the number of equivalent firms in any region to fall significantly below about 3.7. That would be the effect in probably eight or nine regions, had the bids of any of Tesco, Asda or Sainsbury's been allowed, and it would be the case in the North-East, had the Morrison's bid been allowed without divestment.

At the Local Level

In fact, much of the CC report is devoted to detailed analysis at the level of individual localities. For the sake of brevity, I summarise this by noting that, for about half of the 48 Safeway stores that Morrison's would be required to divest, the merger would otherwise entail a reduction from four to three in the number of independent rivals in the relevant locality. Thus, the CC clearly believes that three rivals is insufficient.

Is there a Critical Number of Firms?

I have largely steered clear of discussing whether there are strong theoretical reasons for expecting any particular number, N, to be sufficient for effective competition, whilst N-1 is not. In fact, in a famous (and, for me, seminal) empirical paper based on the analysis of firm numbers and market size, Bresnahan and Reiss⁷ suggest that most of the gains from competition are exhausted once the number of competitors reaches 4. As for the Commission itself, it does not mince its words: throughout the Report it states that coordinated effects would be likely following acquisition by Tesco, Sainsbury's or Asda, but not so likely following acquisition by Morrison's. In this article, I have deliberately side-stepped the likelihood of coordinated effects. However, in my opinion, the Commission's very clearly stated opinion on this issue will probably become the most memorable feature of the case in future years.

¹ "Safeway plc and Asda Group Limited (owned by Wal-Mart Stores Inc); Wm Morrison Supermarkets PLC; J Sainsbury plc; and Tesco plc: a report on the merger in contemplation", Cm 5950, September 2003

² Throughout, I will focus on the main part of the market - 'one-stop shopping' for groceries, defined as stores of 1,400 square metres, or more

³ Booths, Budgen, Co-op, Somerfield and Waitrose.

⁴ Here I should stress that these increases in the HHI, as recorded by CC, are hypothetical, in the sense that they assume the share of the newly merged firm post-merger will be equal to the sum of pre-merger shares of the constituent firms. In fact, nearly all theoretical models of oligopoly predict that the post-merger share will be less than the pre-merger sum.

⁵ Numerically, this is 10,000 (the monopoly value) divided by the actual HHI value: here, 10,000/2,127=4.70.

⁶ Two important qualifications should be made: (i) as already noted in footnote 4, the actual increases in HHI caused by these mergers would be less than those calculated as in the Report; (ii) any synergies arising would dampen the price raising effects. Thus, I use this intuition to gauge the relative, rather than the absolute, impacts of these four potential mergers.

⁷ Bresnahan, T.F. and P.C. Reiss, "Entry and Competition in Concentrated Markets", *Journal of Political Economy*, 1991. Vol. 99, 977-1009.

What is Driving Reform in EU Merger Control?¹

Bruce Lyons

There are a lot of changes in European merger control at the moment. The Merger Task Force (MTF), previously the separate unit in DG Comp that undertook all merger inquiries, is being dismembered and folded into other, mainly sectoral units. Devil's advocate panels are providing an internal critique of the arguments provided by case teams. A new post of Chief Economist has been created and filled by an academic economist, Professor Lars-Hendrik Röller. For the first time, there is a published set of draft merger guidelines which explain the circumstances in which a merger might be expected to result in competitive harm. There is an extended timetable to allow more time to develop remedies that are appropriate to the expected competitive harm. And, as discussed by Andrew Scott in the May issue of this Newsletter, a 'clarification' has been proposed for the dominance test against which all mergers must be appraised. Why is there so much change at this moment in time?

One explanation might be a panic reaction to a series of high profile reverses in the European Court of First Instance (CFI). There is no space to provide full details of each case, but the main problems identified by the appeals are:

Airtours/First Choice: DG Comp did not conduct a sufficiently rigorous economic analysis of the incentives for and ability to coordinate behaviour as a consequence of the proposed merger. Newspaper reports suggest MyTravel (previously known as Airtours) is now suing the Commission for £518m in damages.

Schneider/Legrand: DG Comp failed to take account of the different degree of competition in each of the national markets it identified, and did not provide Schneider with enough information to offer an appropriate remedy. If Schneider were to sue, it might claim €1b in damages.

Tetra Laval/Sidel: DG Comp should have: a) taken account of the fact that its concern over leveraging market power between two otherwise separate markets would have required tactics that are illegal under Article 82; b) provided a proper appraisal of behavioural commitments before resorting to its favourite structural remedy (divestiture); and c) adopted a higher standard of proof. Each of these could be incredibly damaging to effective merger control, and DG Comp immediately appealed to the European Court of Justice. It is, however, unfortunate that this test case is based on the highly contested economics of leverage.

Thus, these appeals raise a range of concerns, including inadequate economic analysis and procedural weaknesses.² So, are the reforms a panic response? The truth is that, even though the CFI reverses have hastened and sharpened some of the reforms, change was already well on the way. There have been three main

drivers for reform.

Ten new member states from May 2004: This is the motive for many of the changes being mooted for EU institutions, from the ECB Governing Council to a European Constitution. It is also a concern for DG Comp, because a large increase in case load is expected. Much of this might relate to state aids, but there will also be merger and antitrust concerns in national geographic markets until the new members on the perimeter of the EU become more economically integrated. DG Comp needs more efficient procedures to deal with this.

Mature reflection: Enormous experience has been derived during the thirteen years since the MTF was first set up to implement the new merger regulation. Inevitably, lessons have been learned and it would be surprising if change was not necessary. As it happens, many of the lessons have been positive, about best practice that can be applied elsewhere. The MTF quickly gained the reputation as an elite unit within DG Comp, especially in comparison with the slow administrative approach in sectoral units applying antitrust Articles 81 and 82 or in the state aids units. There is virtue in spreading good practice, and also in integrating the economic approach to competition throughout all branches of competition policy. Other aspects of reform, such as the merger guidelines, follow from over a decade's experience. Prior to facing a wide range of cases and problems, it would have been hard to write anything meaningfully directed at the EU's particular circumstances.

Increasing use of economic analysis: Economic analysis is used increasingly to inform competition decisions across the globe. All agencies must think hard about how to rise to the challenge of integrating top class economic analysis more centrally into merger appraisal. It is an entirely positive motive for institutional reform to address this very desirable global trend. Indeed, the UK institutions have also been developing strategies to make their economic analysis more integrated and rigorous.

Are the reforms listed in the opening paragraph sufficient to address all the weaknesses in current procedures? Probably not, because there are still some pretty fundamental issues that have so far missed the reform bandwagon. Perhaps the most important is that there continues to be a single case team for all stages of the merger review procedure. All other major jurisdictions see the need for at least two. For example, in the UK, the OFT recommends a detailed investigation, which is then conducted by the Competition Commission. The latter has no pride tied up in seeing a particular point of view through, and it acts as an independent check; and the OFT remains rightly free to refer on reasonable suspicion. Nevertheless, the current range of reforms at DG Comp includes some big steps in the right direction.

¹ An extended commentary by the author on 'Reform of European Merger Policy' is available as *CCR Working Paper 03-5*.

² A further eagerly awaited judgement is the appeal over GE-Honeywell.

Not so eagle-eyed CCR Members Visit Biology Conference on the way to their EARIE

Heather Coles and Christopher Wilson

This summer saw the thirtieth annual conference of the European Association for Research in Industrial Economics (EARIE), in the Finnish capital, Helsinki. Having completed the first year of our PhD, it presented the perfect occasion for us to attend our first international conference. It also provided Heather with the opportunity to present her first paper, 'The Competitive Effects of Mergers Across Hub-and-Spoke Networks' (published as CCR Working Paper 03-3, available at: <http://www.ccr.uea.ac.uk/workingpapers.shtml>).

The conference was impeccably organised and conveniently located in the heart of the city. Heather presented in the first parallel session which somewhat tested our organisational skills. A little jet lagged and tired, we managed to decipher some rather misleading directions, which lead to a Finnish biology conference. We recovered to arrive a little late at the right conference, rather flustered and very wet, but just in time to register and attend the welcome address. Despite these challenges, Heather gave her paper with an unexpected confidence, and it was very well received.

The rest of the conference saw numerous presentations on diverse topics within IO, including those from CCR associate member Michael Waterson, and CCR friend Paul Dobson. CCR's own Steve Davies also attended. The Plenary speakers gave a set of interesting

talks: Hal Varian gave his own textbook treatment of complementarities and network effects; Bengt Holmstrom provided some radical criticisms of previous work, including his own, on the scope of the firm; Marc Ivaldi gave a basic overview of empirical methods in competition policy, including merger simulation; and finally, Margaret Slade presented some new work on testing the contentious issue of firms' profitability.

The conference provided the unique opportunity to meet fellow economists researching in similar fields. As first timers we were both made to feel very welcome and made a number of new friends and useful contacts. It was particularly helpful for us to chat with other young economists about our early research experiences and the challenges ahead of us. Overall we were both impressed with the social side of the conference and the friendliness of the participants – far from your academic stereotypes!

The main social event was the conference dinner, held just outside Helsinki in beautiful countryside next to one of Finland's many large and tranquil lakes. Here we sampled a number of traditional Finnish foods. Dining on reindeer with well over four hundred IO economists was certainly a new and rather bizarre experience. Most other nights were spent in one of the city's large bars. The city itself was fantastic - not large, admittedly, and maybe not brimming with activities, yet it was very attractive, friendly and offered very good food. We also took the chance to go to Tallinn, Estonia's capital, by ferry. Tallinn was beautiful and proved well worth the trip.

All in all, a fine first conference and a fine first appearance for Heather, in the surprisingly sociable world of industrial economics.

Stimulating Discussion at Successful Workshop

Tina Chang

On 3 October, 2003, the CCR and Birkbeck College co-convened the second workshop of the ESRC Research Seminar Series on Modelling Political Accountability: Principal-Agent Relations in Politics and Government. This one day workshop was another great success with stimulating discussions among academics and practitioners from various disciplines, including Political Science, Law, and Economics.

The workshop aimed at identifying and investigating new perspectives on UK utility regulation beyond principal-agent. Michael Moran (University of Manchester) introduced the system of privatisation regulation as a reflection of the age of hyper-innovation in British Government. This was followed by Tony Prosser (University of Bristol) who emphasised the importance of open process of regulation without being particularly bound to contracts and stakeholder regulation. David Coen (UCL) closed the morning session by comparing the business-regulator relations in Germany and the UK.

After lunch Monica Giuliatti (University of Aston) and Catherine Waddams (CCR) presented a paper on incentive regulation and efficiency pricing using the evidence from the UK utility industries. By contrast, Clare Leaver (University of Oxford and ex-UEA) presented a model for bureaucratic minimal squawk behaviour in the US.

Following afternoon tea, Michael Harker (CCR) reported on his findings from judicial review and commitment of UK utility regulation regarding licensing versus licence modification. Then Bitten Brigham and Diane Sharratt (University of Warwick) explained the utility of social obligations in the UK energy industry.

The workshop certainly broadened our scope for interdisciplinary research on regulation and reassured us that there exists a large demand for it.

New Member Joins CCR

Tina Chang has recently joined the CCR as a faculty member. She specialises in Industrial Economics and Financial Institutions. Her research interests lie in banking industry merger implications, impact of competition and technology on industry structure, and bilateral regulation. She currently lectures on Industrial Organisation, International Business and Microeconometrics units at UEA.

Complete Your Education in Competition Economics and Law

MA in Competition and Regulation Policy

This Masters course is structured around six taught modules, three in each of the first two years, followed by a dissertation in the third year. The taught element of each module is delivered intensively during a three or four day period, either Thursday to Saturday or Wednesday to Saturday, with students staying in local accommodation. We are now half way through the taught elements for the first cohort, and in a position to review how the course has worked out so far.

The current cohort includes practitioners from the government sector (the Competition Commission, Ofgem, Ofwat, the Office of Government Commerce and the National Audit Office in the UK, and from outside the UK, the Portuguese Water Regulator) and the private sector (EDF Energy and Servibanca, ACE), with academic backgrounds so diverse as to range from undergraduate degrees in French, History and Business Administration to PhDs in Natural Sciences, though the majority do have some undergraduate training in economics. While most students have joined the programme with a view to securing a full MA, others are dipping in, picking up the modules that most interest them, permitted only if their background is suitable for such an approach. Modules 1-4 are available independently on a credit only basis.

The academic aim is that, by the end of the course, students should be able to analyse competition and regulation cases critically and to undertake independent work in a chosen area of competition or regulation policy. The syllabus for each module is structured with this end in mind. The last two taught modules are devoted to analysing cases, the first of which focuses on competition policy and the second on regulation policy.

Students learn advanced theories of industrial economics, competition analysis and regulation. To enable them to cope with the advanced material, the first two modules teach the necessary basics to take the students from their prior experience to a common level of understanding of the economic, financial, legal and accounting theories behind the later analysis. The learning is supported and enforced through the assessments required for each module with faculty accessible through e-mail contact. The intensive meetings also enable the students and staff to get to know each other through a social programme.

The students have provided us with valuable and very positive feedback, which will be fed into the programme for the next cohort. They appreciate the small group nature of the course and the support they receive from the CCR members, as well as the opportunity to try out their new and prior skills in their chosen field of expertise.



A much appreciated element has been the social programme attached to each module, especially the meals!

While the majority of teaching has been done by the senior members of CCR, Steve Davies, Morten Hviid, Bruce Lyons and Catherine Waddams, virtually all faculty members of CCR have contributed at some point. From the faculty side, the teaching has been hard work, challenging

and fun; a teaching, but also a learning experience. This is inevitable when the students all bring their existing experience as well as their desire to learn something new to the sessions.

We have learned a number of lessons so far, the three main of which are:

The assessments are an essential reinforcement of learning.

Students who were worried about some of the mathematical formalisations used in economics could be made comfortable by incorporating some basic skills from the beginning.

The commitment of the employer is as important as the commitment of the student.

We are looking forward to applications for places for the second cohort starting in October 2004.

Places will be limited to 20 to ensure that the course does not become impersonal. If you are thinking of applying, please contact Laurence Wild (CCR Centre Co-ordinator, laurence.wild@uea.ac.uk) for details, or visit our web site at: www.ccr.uea.ac.uk

LLM in International Competition Law and Policy

Recognising that the nature of the lawyer's role in the competition field is such as to require a substantial appreciation of the law, the procedures, and the economic concepts that underpin policy and practice, this unique LLM programme is designed to equip students with each of these important competencies. It uses the EC competition regime as the standard vehicle for analysis, but draws detailed comparison with the substantive law of the UK, the US, and other jurisdictions as appropriate. Moreover, the course of study encompasses wider issues such as the overlap with trade policy, development issues, and sectoral regulation. The range of expertise and experience within the CCR allows us to offer an unparalleled learning environment. Furthermore, students benefit from engagement with leading actors from business, government, and private legal practice. The programme is supported with scholarships for candidates of outstanding calibre. For further information contact Dr Andrew Scott (a.d.scott@uea.ac.uk or (01603)592525), or visit www.uea.ac.uk/law