

## Welcome

Welcome to the first issue of our newsletter, which will be published twice a year and circulated to public and private sector organisations, as well as academic colleagues.

The Centre for Competition and Regulation was established in November 2000 to undertake high quality, independent research into competition and regulation and its impact on companies and others. The Centre's initial focus is on the UK and European contexts, but also includes considerable expertise on policy outside Europe. Its output is in the public domain and will contribute to both the development of policy and to understanding business responses.

The founding members of the Centre form one of the strongest UK teams of industrial economists and accounting researchers. Our particular areas of expertise are competition economics; merger policy; industry structure; ownership patterns; the role of transparency; vertical restraints; audit and corporate governance; privatised industries; new energy markets; and social impact of regulation and competition.

We hope you find this newsletter a 'good read' at the very least, but also that it might stimulate some discussion and debate around the issues we face today. With this in mind, we welcome any comments or feedback you might have on the subjects we raise. You can find our contact details on the top left hand corner of this page.

Laurence Wild  
Editor

### Opportunities in the Centre

See [www.ccr.uea.ac.uk](http://www.ccr.uea.ac.uk), or contact us for more information.

**Research Assistant** Half time from 1st September for 21 months. To provide general research assistance on ESRC funded project, in particular to analyse the prices charged by energy companies to different markets and the effects on different household groups.

**PhD Studentship** Available from September 2001, the studentship is for three years, subject to satisfactory progress, and offers a stipend of £8,500 in the first year, rising to £9,500 by year 3. Deadline for application is 31 July, 2001.

## UK Competition Authority leaders address CCR

In its first few months, both the chairman of the Competition Commission, Dr Derek Morris, and the Director General of Fair Trading, Professor John Vickers, addressed Centre meetings.

The Centre for Competition and Regulation was launched on 21 March, 2001 with a small number of selected guests. A seminar took place at the University of East Anglia, which consisted of a series of short talks and discussion. The formal proceedings were followed by a champagne reception in the Sainsbury Centre for the Visual Arts. See below and page 2 for more information about the subjects discussed at the launch. On July 12th Professor John Vickers will be awarded an honorary degree by UEA. Afterwards he will join members of CCR, colleagues from the Schools of Economic and Social Studies and local trading standards officers at an informal lunch, and talk about the work of the Office of Fair Trading.

## CCR Launch – 21 March, 2001

The guest speaker at the launch of CCR was the Chairman of the Competition Commission, Dr Derek Morris. His lively talk on Competition and Regulation in the UK reviewed the provisions of the 1998 Competition Act, and focused on a number of recent developments in the light of these substantive changes. These covered changes in merger practice, the introduction of new legislation for the utilities, changes in monopolies legislation and increasing transparency in the operation of Competition Law. The merger process had been de-politicised by taking decisions out of ministerial hands, and individuals were being replaced by boards with corporate responsibility in competition policy and in some utilities. But Dr Morris did not suggest that the reform process had concluded; rather he identified a number of ongoing themes, in particular the development of competition within the utilities, the role of consumers and their representation. Equally important questions were the independence of regulatory authorities and the quality of the information provided to them. These are issues at the heart of the CCR research agenda, not least the question with which Dr Morris concluded: w(h)ither regulation?

## What Does Economics Offer To the Practice of Competition Policy?

Professors Steve Davies and Bruce Lyons illustrated the convergence of economic analysis and policy practice using the recent Competition Commission investigation of the merger between Interbrew and Bass. In January, this acquisition of the Bass brewing interests by a large Belgian multinational brewer, which had only recently acquired Whitbread, was found to be against the public interest and ordered to be unwound.

The evolution of market shares in brewing is shown in Table 1. The Commission's main concerns were that the merger would: reduce the number of brands competing with each other; create conditions for collective dominance; lead to increased non-price competition (i.e. advertising and marketing); and reduce competition at the retail level. Steve Davies described how recent developments in economic analysis provide a practical framework for assessing these issues. For example, the theory of tacit collusion helps to identify the likelihood that Interbrew and S&N might be unwilling to compete with each other. Other techniques help to assess whether proposed cost savings might outweigh the price-raising effects of reduced competition. The UK Competition Commission demonstrates good use of economic theory, but it could further develop the use of quantification techniques.

Bruce Lyons developed the theme that competition authorities need to consider the remedies they might apply to redress an anticipated harm. For example, short of banning a merger, certain brands might be divested, the vertical structure of the industry may be changed, or pricing and other business practices might be directly regulated. The recently adopted practice of the Competition Commission publishing remedies under

## New Accountabilities in Utilities: 50 Years of Legal Accountability in the Gas Industry

Professor Catherine Waddams' presentation of a paper she had written with Lynne Conrad had three broad themes: vertical separation in regulation; information; and self regulation.

She began by outlining how responsibility for the public interest has developed since the days of nationalised industries, and considered the impact of privatisation legislation and the recent Utilities Act on accountability for the public interest. She continued by discussing the role of information in regulation, with the asymmetric information economic model as a starting point.

This model assumes that regulators are at a disadvantage compared with the industries they regulate, in terms of

	1985	1991	1996	1999
Bass	22	22	22	22
Whitbread	11	12	11	11
S&N			28	26
Scottish&Newcastle	10	11		
Courage	9	19		
Grand Met	11			
C-T			14	11.8
Allied Lyons	13	12		
Carlsberg	n/a	4		

Table 1: The changing market shares of Britain's largest brewers.

consideration was applauded. However, there was still room for a more careful consideration of alternative remedies. Does the remedy in one case store up problems for the next? If advertising and brand promotion are major causes of increased concentration, can a ban on a merger do any more than delay the inevitable? There is much brand licensing between brewers, so how does a contractual relationship between firms differ from full integration? Economics also casts light on these questions. These are exciting times in bringing economics into the practice of competition policy, but there is still room for further development.

### POSTSCRIPT.

Subsequent to this talk by Davies and Lyons, there has been an important development in the Interbrew/Bass case. On May 9-11th, it was the subject of a judicial review, in which the Court largely upheld the Competition Commission's decisions and reasoning. However, it did accept Interbrew's challenge in one respect (concerning the implications were Interbrew to sell off its existing interest in Whitbread). See The Competition Commission's website:

<http://www.competition-commission.org.uk/pressreleases/20-01.htm>

We anticipate further developments - both in this case and, more generally, in the restructuring of the UK beer industry as a whole.

For more details, see our website.

access to information. The tendency for regulators to demand ever more information from industries, without adequate regard to cost-benefit considerations, was highlighted. The role of regulatory accounts is currently the subject of joint consultation by the main utility regulators, and the potential of regulatory accounts for limiting the ad hoc information demands of regulators was considered.

Professor Waddams concluded by raising important questions about self regulation, including the accountability of regulators, and emphasised the relevance of such issues not only in the field of utility regulation, but also in regard to regulation of the professions, citing regulation of the audit profession as the subject of considerable current debate.

The paper can be found in full on our website.

## The CCR Team - who are we?

**Catherine Waddams**, Centre Director and Professor of Regulation, joined UEA from Warwick Business School. Her research interests are in the economic regulation of privatised utilities. Current work centres on measuring the performance of industries, both externally and internally, the interaction between social obligations and economic regulation, and the development of competition and the nature of consumer choice in residential energy markets.

While most of her work has been based on the UK, she has also examined these issues in developing economies.

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**Steve Davies**, Deputy Director of the Centre, is Professor of Economics. His research interests are broad, but most of his research and teaching is in Industrial Organisation. A previous editor of the *Journal of Industrial Economics*, he has written books and articles and supervised PhD students on Industrial Structure; European Integration; Multinational Firms; Competition Policy; Productivity; and Diffusion of Innovations.

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**Lynne Conrad** is a lecturer in Accounting. Her teaching interests include financial and management accounting. Her research interests include the literature on management control and organisational change, including the impact of organisational change on accounting systems and systems of accountability. Of particular interest are developments in the area of New Public Management. She favours critical and interpretative approaches to research, using case study methods, to try to gain greater insight into the forces behind organisational change.

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**Begoña Garcia-Mariñoso** is a lecturer in Economics. She specialises in Industrial Economics and Regulation. In particular, she has written papers on competition issues in markets for new technologies and on the organisation of public health systems.

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**Morten Hviid** is a Senior Lecturer in Economics. He specialises in Industrial Economics and Law and Economics. His research interests include practices which facilitate collusion such as low price guarantees, the use of transparency as a competition remedy and the signalling effect of regulatory decisions.

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**Bruce Lyons**, Dean of the School of Economic and Social Studies and Professor of Economics, is an Associate Editor of *Economica*. He is a Member of the Academic Advisory Panel to DG-Comp (European Commission). His research interests are European industrial structure; impact of the EU internal market programme; contract theory and actual contracts between firms; and objectives and remedies in competition policy.

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**Peter Russell's** specialisms include financial accounting; auditing; and international accounting. His research interests centre around Audit and Corporate governance. His current projects include accounting integration: an Anglo-French study; Asia-Pacific Initiative; and the case for and against a commission for company audit.

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## Low income energy consumers

The Centre is continuing to analyse the metering and consumption choices of low income energy consumers, based on data from over 3,400 consumers. The project, commissioned by the Electricity Association Fuel Poverty Task Force, was undertaken initially at the University of Warwick and transferred to the Centre for Competition and Regulation in November 2000. The main report was delivered to the EA in January 2001 and is available on their web site at

[http://www.electricity.org.uk/srch\\_fr.html](http://www.electricity.org.uk/srch_fr.html).

The report found that most prepayment meter users much preferred this method of payment, and only a minority (about a quarter) self disconnect in any one year. Further analysis at CCR will include consideration of the minority of consumers for whom self disconnection was a problem, and the ways in which they might be helped; and explore how low income consumers allocate their budget between different demands. Barbara Eberth has joined the Centre from the economics sector at UEA as a Research Associate over the summer to work on this.

## CCR Conferences

### 1st Annual Conference in 2002

CCR plans to hold an inaugural conference at UEA in mid-April 2002, on the theme of 'Accountability and Accounting in Regulated Industries'. Contributions will be invited on a range of issues relating to privatised industries, financial services and the professions. Further details will be circulated and publicised on our website in due course.

### Spring 2003

The Centre plans to hold a conference in Spring 2003 on European competition cases, linked to a book which will publish the papers presented as critical examples of judgements in the competition and regulation area.

## Open Workshops

A programme of open workshops is planned for the Autumn. More details will follow on the website in due course.

## CCR Working Paper Series

The team at CCR has published a working paper series, which is posted on and can be downloaded from the CCR website. Current titles and their web addresses can be found on the Publications insert with this newsletter, or by visiting our website and clicking on the CCR Working Paper Series button. This is an ongoing series and further papers will be added over the course of the next months. A hard copy of any paper can be obtained on request.

## Regulatory Design: External and Internal Performance Measures in Regulated Industries

Catherine Waddams leads a team, including Lin Fitzgerald and Bitten Brigham at the University of Warwick, that is researching performance measures in regulated industries. Funded by the ESRC, this project is unusual in combining the approach of three disciplines to analyse companies' performance targets at three distinct but related levels in regulated utilities. Firstly the external targets imposed by the regulators, secondly the organisational system of performance measurement, and finally individual appraisal and reward systems. A principal agent model is being used both to assess relationships between regulator and company (the classic economic model) and the impact of performance measures on individual employees within the company (using an organisational behavioural approach). These approaches are linked using management accounting methodology. The results will enable regulators to set targets more effectively, and elucidate the process by which companies balance the 'public' requirements imposed by regulation with their obligations to shareholders.

## New Masters Programme

CCR is planning a new part-time modular Diploma and Masters programme next year. The objective of this degree is to provide participants with a rigorous introduction to the tools used in competition and regulation policy, to enable them to apply these to the circumstances of their own work, and to exchange experience with others working in regulatory and competition offices and associated industries from across Europe.

The course consists of six taught units and a dissertation. The first three units provide a basic foundation on which the last three units are built. Students who successfully complete the first three units would be awarded a postgraduate certificate; those who complete the six taught modules a post graduate diploma; and those who complete the entire course, including the dissertation, an MA. The course will build on first year undergraduate level economics and entrants should have either completed a first level economics course, have some relevant legal background, or equivalent professional experience. All applications are individually assessed and, where relevant, advice will be given to help bring candidates to an appropriate standard for admission.