



SAMKEPPNISEFTIRLITID

Oligopoly in small economies

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Oligopoly and concentration a common feature in Icelandic markets

- Oligopolies common in small economies.
- Significant changes in the Icelandic economy:
 - Deregulation
 - Easy access to financing
 - Robust economic situation
- Trend towards higher concentration.

Estimated HHI (Herfindahl Hirschman Index) for individual markets

| < 1000 | 1000-1800 | >1800 | |
|--------------------|------------------------|--|-----------|
| Low concentration: | Average concentration: | High concentration: | |
| | | Food - retail | >3000 |
| | | Oil markets | >3000 |
| | | Non-life insurance | >3000 |
| | | Banks-lend./deposits to indiv./small enterpr | 1500-2000 |
| | | Pharmacies | 3000 |
| | | Telecommunications | 5-6000 |
| | | Marit. freight transp. | 5000 |
| | | Scheduled air transp. of passengers | 8000 |

The HHI represents the combined multiple of the market share of each of the undertakings operating in a specific market. The value of the index can lie between the figures 0 and 10,000. The higher the index, ranging from 0 to 10.000, the greater the concentration.

Mergers on the increase

Merger notifications to the Competition Authority (SE):

- 2004 => 25
- 2005 => 30
- **2006 1Q => 15**

ICA's (SE) ability to react to increasing oligopoly depends on the following:

- Are necessary tools provided for in the Competition Act?
- Are necessary resources to the SE provided for?
- Does the emphasis and management of SE ensure maximum use of resources?

Tools provided for in the Competition Act

- Mergers to be notified to the SE. A merger can be subject to annulment or conditions.
- Any abuse of a dominant position is prohibited and subject to administrative fines. The SE may take action both to change behaviour and structure of a company.
- Any agreements or concerted practices which have as their objects or effect the prevention or distortion of competition are prohibited and subject to administrative fines. The SE may take action both to change behaviour and structure of a company.

Changes to the Competition Act are necessary

- Merger control
 - Companies should be subject to administrative fines if a notification of a merger is neglected.
 - SE should be able to conduct a dawn raid as a part of a merger-investigation.
- SE should be able to conduct a dawn raid at directors' homes, not only at companies' offices.
- Actions should be taken against i.e. dominant firms, as a remedy against distortion of competition in a relevant market, even if the criteria of an abuse of a dominant position is not met.

Adequate resources?

- Resources of the SE should be reconsidered in light of current developments.
- SE will have 18-20 employees at end of 2006.
- Further resources have to be provided for.

SE intends to...

- ...scrutinise any further mergers in oligopolistic markets. When possible the merger provisions of the Competition Act will be used to stop consolidation which may distort competition.
- ...make the lives of managers involved in cartel activities as uncomfortable as possible.
- ...deal with distortions to competition deriving from ownership links between competing companies.
- ...deal firmly with any abuse of a dominant position.