Scotland's Economic Performance

Competition and Markets Authority

Introduction and summary

The Competition and Markets Authority (CMA) is an independent non-ministerial UK government department, and the UK’s primary consumer and competition authority. We work to promote competition for the benefit of consumers, both within and outside the UK. Our aim is to make markets work well for consumers, businesses and the economy by promoting competition. Competitive markets and an effective competition policy can play a major role in delivering productivity and growth in the UK economy.

The CMA has responsibility for:

- investigating mergers which could restrict competition
- conducting market studies and investigations in markets where there may be competition and consumer problems
- investigating where there may be breaches of UK or EU prohibitions against anti-competitive agreements and abuses of dominant positions
- bringing criminal proceedings against individuals who commit the cartel offence
- enforcing consumer protection legislation to tackle practices and market conditions that make it difficult for consumers to exercise choice.

The CMA provides this submission to the Scottish Parliament’s Economy, Jobs and Fair Work Committee to assist it with its inquiry into Scotland’s economic performance, with a particular focus on the area of: Scotland’s GDP, Growth and Productivity. The CMA would be happy to discuss any of the material in this paper.

Scotland’s GDP, Growth and Productivity

How does competition drive productivity and economic growth?

There is a strong body of evidence showing that competition can drive greater productivity. Within-country studies demonstrate a positive relationship between strength of competition and productivity growth across sectors. Similarly, cross-country studies suggest that countries with lower levels of product market regulation, enabling stronger competition, tend to have higher levels of productivity growth.
Our analysis of the evidence\(^1\) indicates that competition drives productivity in three main ways. Firstly, within firms, competition will act as a disciplining device, placing pressure on the managers of firms to drive efficiency. Secondly, competition ensures that more productive firms increase their market share at the expense of the less productive. These low productivity firms may then exit the market, to be replaced by higher productivity firms. Thirdly, and perhaps most importantly, competition drives firms to innovate, coming up with new products and processes which can lead to step-changes in efficiency.

**Competition also benefits consumers.** When markets work well, firms only thrive if they provide - more cost-effectively than their competitors - what consumers want: through greater choice, lower prices, and better quality goods and services.

**Consumers drive competition** by being empowered to participate in purchasing goods and services with confidence and quickly (thus lowering transaction costs for businesses). Consumer trust when buying goods and services relies on having and knowing about their consumer rights. Enforcement of those rights by a well-functioning consumer protection regime is also important. Businesses attract custom when buyers know they can be trusted.

An effective competition policy also provides the **conditions for a stable environment** for business and investment, including overseas investment. When firms know that there are consistent rules through harmonised competition policy across the EU and, generally, internationally, this provides certainty for their decisions to grow or invest or relocate.

Competition generally drives firms to improve their internal efficiencies and reduce costs, incentivises firms to invest in innovation, and reduce managerial inefficiency. Competition also rewards more efficient firms and leads to the exit of less efficient firms thereby increasing the overall productivity of the economy.

**How can Government drive competition?**

There are a number of actions that governments can take to encourage and foster competition. Considering whether a policy may have a pro-competitive effect is important as measures that increase competition can reasonably be expected to drive economic growth and benefit society. Policies that remove restrictions or increase the incentives for companies to compete will encourage competitive markets to thrive.\(^2\)

The CMA recognises that success will come from promoting entry and innovation, and not from protecting the position of incumbents. Incumbent

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\(^1\) Competition and Markets Authority (2015) Productivity and competition: A summary of the evidence

businesses often have the means to make their positions heard in response to policy consultations; this can inadvertently lead to policies which, by limiting or distorting competition, may harm the interests of consumers. The CMA has detailed ways in which Government can guard against this risk through competition impact guidance, with a view to making policymakers aware of the impact of their interventions on effective competition in the sectors/markets affected. The CMA has provided several sessions and presentations to Scottish Government officials, encouraging use of this guidance. The CMA also is an observer at meetings of the Scottish Government’s independent Regulatory Review Group.

How does the CMA act to promote competition?

We can investigate and act on mergers where they will have a negative effect on competition in markets. An example is the requirements we placed on Breedon Aggregates Limited to sell asphalt and concrete plants in north Scotland to address concerns we had that local competition in these markets would be affected by the firm’s acquisition of its competitor, Aggregate Industries UK Limited, in 2014. Both these products were vital for major construction and road-building projects in the north-east of the country, projects that were being supported by public sector investment to help stimulate and grow the local economy.

The CMA can also initiate market studies or investigations in order to identify and remedy competition or consumer issues. In 2016, we published an evaluation of the Competition Commission’s market investigation of the supply of airport services in the UK provided by BAA. The CC’s investigation which reported in 2009 found that there were several features of the markets for airport services supplied by BAA, which could prevent, restrict or distort competition, thereby having an adverse effect on competition between both airports and airlines. This resulted in an order on BAA to sell Stansted, Gatwick and either Edinburgh or Glasgow airports. In Scotland, Edinburgh was sold. The evaluation found that since divestments, all 3 airports have grown passenger numbers by an average increase of 10% which had led to increased investment and improved services.

We can also take enforcement action where we identify potential breaches of competition law. This includes cases where firms that are dominant in a market abuse that position either horizontally (e.g. with competitors) or vertically (e.g. with suppliers). An example of when we conducted such an

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4 ICF International (2016) Evaluation of the 2009 Competition Commission’s BAA airports market investigation remedies

investigation is when complaints were made about high prices of fuel in the Western Isles. The outcome of the investigation was to address potential barriers to increased competition in the local supply of petrol and diesel to filling stations in the Western Isles. Allowing a new entrant to access this market would potentially lead to increased competition with benefits for both business and consumers on the islands.6