DANISH COMPETITION AUTHORITY

Competition Report 2009

June 2009

Danish Competition Authority (DCA)

Nyropsgade 30
1780 Copenhagen V.
Denmark.
Tel: +45 72 26 80 00
Fax: +45 33 32 61 44

Layout
Wordspecialisten

Print
Scanprint

Pictures
Scanpix

Translation
Christian Westberg (DCA)

The main conclusions of the chapters are written by:

Chapter 1:	Lisa Sandager and Christian Ølgaard (Editor)
Chapter 2:	Niels Enemærke, Monica Hansen, Christina Hoffgaard, Claus Peter Hansen and Signe Rølmer
Chapter 3:	Allan Skytte Christensen
Chapter 4:	Carina Hilt Jørgensen and Christian Geel Andersen

Preface

I am pleased to present Competition Report 2009, the latest in a succession of 12 by the Danish Competition Authority.

Competition promotes prosperity, means lower prices, higher quality, a wider range of goods and competitiveness for the benefit of society, the companies and the consumers.

Therefore, it is crucial that competition is efficient.

In its annual competition reports, the Danish Competition Authority analyses and takes the pulse of the competitive situation in Denmark in both the private and the public sector.

This year, the Competition Report is slightly slimmer than previous years. It relates to the fact that a series of analyses that were previously part of the competition report, will appear in our new series of Competition Analyses in the future.

It is my wish that, by Competition Report 2009, we will help bring competition into focus in Denmark.

I wish you an enjoyable read.

Agnete Gersing
Director General

Chapter 1
Main Conclusions

1.1 INTRODUCTION

It is the Danish Competition Authority’s vision that the consumers get access to a wide range of goods and services at the lowest prices possible, given the quality.

Efficient competition encourages the companies to use the resources optimally, including developing new products and cleverer production methods.

Despite the present financial crisis, it is crucial not to reduce the efforts to tighten competition. Efficient competition ensures that resources move faster from companies in recession to competitive companies creating new growth for the benefit of both companies and consumers.

It is part of the Government’s globalisation strategy that Denmark is on a level with the leading OECD countries. The development is moving in the right direction though competition in Denmark is not yet on a level with the leading OECD countries.

Every year, in its Competition Report, the Danish Competition Authority takes the pulse of the competitive situation in Denmark. This year’s chapters deal with:

- The Competitive Situation in Denmark
- Competition for Public Assignments
- Competition in the Market for Car Repairs and Car Service

Boks 1.1: Main Conclusions

Chapter 2: The competitive situation in Denmark

- Competition in Denmark improved slightly from 2000 to 2006. Competition improved primarily in the trades with the most substantial competition problems.
- In 2007, net prices, adjusted for indirect taxes and real per capita income, were approximately 7 per cent higher than the EU9 average level and thus the second highest among the EU9 countries. Especially, prices on services are high in Denmark.
- An average Dane will annually save 9,000 DKK on purchases of goods and services, if the price difference of 7 per cent were levelled out.
- Based on several different indicators, it is the overall assessment that competition in Denmark is weaker than in the greater part of the EU9 countries.

Chapter 3: Competition for public assignments

- In 2008, the municipalities' assignments being exposed to competition increased by 1.1 percentage points to 24,8 per cent, while, in recent years, the State's assignments being exposed to competition have been on a fairly constant level.
- An EU survey shows that significant savings are attained through public tendering.
- With more than five tenders, the EU countries' authorities save 10 to 20 per cent.
- It is important with more than one bid per contract. By moving from one bid to two bids per contract, the saving almost triples. Hereafter, the saving reduces as the number of bids increases.
- Overall, there is a great saving potential, if the municipalities make use of exposing an increased number of assignments to competition.

Chapter 4: Competition in the market for car repairs and car service

- It is expensive to maintain a car in Denmark. Compared to Sweden and Germany, car repair costs in Denmark are approximately 20 per cent higher, car service approximately 50 per cent higher and spare parts 10 to 25 per cent higher.
- In Denmark, prices for work output connected to car repair and car service rose significantly more (50 per cent) than the overall services (30 per cent) from 1998 to 2008.
- Consumers save 20 to 30 percent on standard car repairs and car services by using independent repairers instead of authorised repairers.
- In summary, great price differences exist for car repair and car services between authorised repairers in Denmark compared to such repairers in neighbouring countries.
- There are also great price differences between authorised and independent repair shops in Denmark.
- In conclusion, great price differences vis-à-vis neighbouring countries and between authorised and independent repair shops indicate that the competition for car repairs and service is weak.

1.2 THE COMPETITIVE SITUATION IN DENMARK

Overall analyses show that competition in Denmark has improved slightly from 2000 to 2006.

Competition improved primarily in the trades with the most substantial competitive problems, including the financial sector. The analyses also indicate that competition in the overall economy got slightly less intensive from 2005 to 2006. However, competition improved in the trades with the most substantial competitive problems.

It is difficult to measure competition by an overall indicator. Therefore, the Danish Competition Authority uses a series of different indicators that gives an overall picture of the competitive situation in Denmark.

In 2007, Danish prices were approximately 7 per cent higher than the EU9 average level, adjusted for indirect taxes and real per capita income. If the price difference on 7 per cent were levelled out, an average Dane would save approximately 9,000 DKK on her purchases of goods and services (2007 price level). Denmark had the second highest prices in EU9. Only Finland had higher prices.

The high Danish prices partly relate to the fact that competition in Denmark is not as intensive as in the other EU9 countries.

The number of trades showing signs of substantial competitive problems constitutes 34 of 501 trades. It is one trade less than last year. The trades constitute approximately 12 per cent of the total economy which is unchanged compared to last year. It is the Government's goal, that the number of trades with substantial competitive problems is reduced to 32 in 2010. Thus, the goal is almost attained.

As for the greater part of the trades showing signs of substantial competitive problems, these problems, largely, are due to anti-competitive rules and regulations. Danish regulation, however, is not anti-competitive to the extent seen in most of the other EU9 countries. Only in two other countries, regulation is less restrictive. However, there are still areas in Denmark where regulation is unnecessary anti-competitive as in e.g. pharmacies and the taxi industry.

An efficient Competition Act is likewise crucial to competition. EU and the EU Member States are, in general, aware of this fact and are constantly adjusting their Act to ensure efficient competitive legislation. In several areas, the Danish Competition Act is on a level with the EU competitive legislation, including comparable countries, as for instance the Netherlands, Sweden and Norway. By the recent amendment, by 1 July 2007, among other things, a leniency programme was introduced, including regulation concerning immunity from fines or reduction of fines to companies cooperating with the authorities on unravelling cartels. The Danish fine levels, however, are low. The previous low fines, among other things, relate to the fact that, in connection with earlier amendments, the fine level in Denmark was intended to comply with Danish legal traditions. Moreover, merger control is weaker in Denmark than in a series of other countries. Therefore, there might be a need of looking closer into these areas to ensure a still more efficient Competition Act. In December 2008, a commission, set up by the Government, presented recommendations on how merger control can promote a more efficient competition, for instance through more companies' obligation to notify a merger to the competition authorities.

1.3 COMPETITION FOR PUBLIC ASSIGNMENTS

Every year, the State, the regions and the municipalities spend more than 500 billion DKK on operating costs. Therefore, it is crucial to focus on how to solve the public assignments in the optimal and cheapest way, including creating optimum conditions to develop the public service areas.

In recent years, competition for public assignments has increased. Today, the public sector is exposing more assignments to competition than before. In 2008, the municipalities' assignments being exposed to competition rose by 1.1 percentage point to 24.8 per cent.

There is variation between the municipalities' scope of exposing assignments to competition, ranging from more than 30 per cent to below 18 per cent.

In addition, there is a clear difference between how much is being exposed to competition in the individual public operating cost areas. As for utility companies, 51 per cent is being exposed to competition, while in the health care only 14 per cent is being exposed to competition.

Political will and backing are crucial factors for an increased scope of assignments being exposed to competition. The majority of the municipalities do not experience internal, market-related or information-related barriers.

Enhanced competition for public assignments is also reflected in the citizens' growing use of the option of free choice of supplier. This applies especially to home care where, in recent 4 years, the share of users of private suppliers rose from approximately 10 per cent to 28 per cent.

In recent years, the degree of tendering by the state, contrary to that of the municipalities, has been fairly constant at a rate of approximately 25 per cent.

In the years 2005 and 2006, Danish authorities put roughly 18 per cent of all public purchases to EU tender. Compared to the years 2003 and 2004, it is an increase by 2 percentage points, ranking Denmark close to the EU15 average.

According to an analysis of EU tenders in the 25 EU countries, tendering saves from 10 to 20 per cent in the case of 5 to 25 companies bidding on an assignment put to EU tender. The saving on all EU tenders amounts to an average of approximately 8 per cent as for the whole of EU. As for Denmark, with some uncertainty, the saving constitutes an estimate of approximately 4 per cent.

It is important with more than one bid per assignment. Through tendering, the saving almost triples by moving from one bid to two bids. Hereafter, the increase of the saving decreases as the number of bids increase.

Danish surveys show that the municipalities have saved between 20 to 30 per cent by putting the technical areas to tender. There are no Danish surveys available concerning potential effects on the social areas, but Swedish surveys show a positive effect, especially in the elderly sector.

As a whole, the analyses show a significant saving potential, if the municipalities increase their assignments being exposed to competition.

1.4 COMPETITION IN THE MARKET FOR CAR REPAIR AND SERVICE

It is more expensive to maintain a car in Denmark than in comparable countries. Repair costs are approximately 20 per cent higher, service is approximately 50 per cent higher for selected car models in Denmark compared to Sweden and Germany and prices on spare parts are 10 to 25 per cent higher.

On an average, consumers save 20 to 30 per cent on service and typical repairs by using independent repairers.

The high Danish prices and great price differences indicate that competition is inefficient. One of the reasons appears to be the structures in the industry. This relates to the fact that the importers determine who can become authorised dealers and set the criteria for what it takes to become an authorised repairer.

The consumers only exert little pressure on prices. It may be inter alia because many customers wrongly believe that the car guarantee only applies when using an authorised repair shop.

Another reason may be that the high Danish car taxes make new cars expensive. The tax on new cars urges the customers to pay high prices on service and maintenance in the first years of the cars' lifespan, because a new car is such a great investment. The high car taxes also put pressure on the dealers' profit on the sale of new cars. In turn, this gives them incentives to charge high prices on the repairs and services.

Finally, it is difficult for the consumers to assess the relation between price and quality as regards repairs and spare parts.

The surveys do not conclude that the services of the authorised repairers versus the independent repairers are identical. However, surveys, carried out by the National Consumer Agency, show that consumers having used independent repairers are more satisfied than consumers having used an authorised repair shop.

In most areas, equal terms apply to independent repair shops and authorised repair shops. In certain cases, however, the independent repair shops are dependent on good personal relationships with competing authorised repair shops in order to get access to technical support.

The Danish Competition Authority puts forward two options to improve competition. Firstly, the Danish Competition Authority suggests that for instance technical information, regarding the car, follows on a CD or DVD when purchasing the car. The Authority has proposed to the Commission that it works to achieve this. Secondly, the Authority suggests, that the repair shops, when offering repair services, inform the customers of the price on spare parts and work hours separately. This will help the consumers figure out how prices are determined, including whether the authorised repairers charge higher prices on spare parts.