

REGU^LETTER

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Inside this Issue

Competition Law in Hong Kong	4
IMF on Global Inflation	5
World's Largest Airline?	9
Citigroup – A Mistake	10
Boardroom Still a Male Territory ...	11
Best Investment Destination	12
Nigeria Cancels Sale of Steel Plant	13
Order to Examine Fuel Prices	14

Special Articles

Regulator Must Oversee Trade Competition – James Thuo Gathii	15
Why Financial Regulation is both Difficult and Essential – Martin Wolf	16
Getting the Policy on Governance Right – Dani Rodrik	17

Busting Cartels for Development

Promoting effective competition in developing countries means getting tougher on cartels in the Organisation for Economic Cooperation and Development (OECD) area, and compensating customers internationally. Through a new competition fund, the OECD could play a lead role in making sure poorer countries get a fairer deal.

Cartels are the most egregious form of anti-competitive practices in the world. Rival firms explicitly agree not to compete with each other, to restrict output and raise the price of their products. They harm consumers in both developing and developed countries because of their upward impact on prices and their corresponding downward impact on consumer welfare. They also afford firms the luxury of being inefficient.

Little wonder cartel busting is one of the most important activities of competition authorities around the world.

However, while enforcement is quite effective in many of the richer countries, it is lacking in the developing world, because of resource constraints and inexperience.

To be sure, the OECD runs training workshops to assist developing countries in building skills to deal with cartels and other anti-competitive practices. But innovative approaches are needed to compensate consumers from developing countries who fall victim to international cartels, most of which are based in OECD countries.

Impact of Cartel on Economies

Cartels operate at both national and international levels. The imports of their products by developing countries sold by 16 international cartels, which operated during the 1990s, amounted to US\$81.1bn or 6.7 percent of these countries' imports and 1.2 percent of their national incomes in 1997.

The resulting increase in prices was about 20 to 40 percent of the market price, which illustrates the immense adverse impact they have had on economies. This means overcharges in the range of US\$16bn to US\$32bn, which corresponds to between one third to two thirds of the total development aid received by developing countries in the late 1990s.



Cartels: A View from Across the Globe

Across the globe, cartel activities are being penalised. In recent times, record fines of more than US\$500mn have been levied by the UK and US competition authorities on British Airways for colluding with Virgin on transatlantic flights. There are other airlines too, such as Korean Airlines, which have been actioned against. British Airways is also facing action under the European Union (EU) laws and other jurisdictions. Furthermore, the affected consumers in the US have also filed for class action damages against British Airways.

The fines levied on the airlines will be credited to the treasuries in the US and UK, and citizens who have filed private action suits against the said airlines will be compensated. Many consumers from various countries in the developing world also fly to the US, often via Heathrow airport, yet neither these customers nor their governments will be able to fine the airlines or claim compensation!

Should a portion of these fines not be used to strengthen institutions in the developing world that help in enforcing fair competition? The main reason this does not happen is because there is no effective global competition law and no agency to enforce one.

In many cases where the victims of cartels are numerous but cannot be identified, it is common practice for courts to award compensation to some public institution or public interest group.

Though short of compensating the victims themselves, this is widely seen to be an acceptable alternative way of using the money – legally it is referred to as a *cy près* award, a Latin expression meaning “next best use”. In India, when manufacturers won court cases against the government for excess excise payments, the money was not refunded to the manufacturers, but put into a government-administered Consumer Welfare Fund for investment in further consumer education, advocacy and research.

Similarly, in Brazil the fines are put into a government-administered fund and used exclusively for consumer protection or competition advocacy. In Peru, there is a system whereby half the fines collected go to a recognised consumer association, again to be used for consumer education and advocacy.

In the US, fines in antitrust cases are quite often put into a trust account to be used only to pursue education and research on competition policy issues. In June 2007, the George Washington University Law School received a *cy près* award of US\$5.1mn from a class action antitrust lawsuit to endow a centre on competition law. The law school at Loyola University in Chicago received an award to establish the Institute of Consumer Antitrust in 1994.

These awards relate to mainly domestic cases. However, there are several international cases too, from which no award has been made to parties outside the domestic jurisdiction. One of the most notorious international cartel cases was related to bulk vitamins. The cartel was penalised in all rich country jurisdictions, but not in a single developing country. In California, a Vitamin Cases Settlement Fund was created from an out of court settlement. It has already made grants totalling US\$29mn and more are in the pipeline.

All such awards are given under national laws and remain restricted to their boundaries. Action by developing country authorities has been absent, because most of them, including big countries like India or China, do not have an effective competition law. Smaller developing countries too suffer for similar reasons.

There is thus a strong case for strengthening the enforcement and advocacy roles of competition institutions in the poor world through funding from a part of the fines paid. This could be done by creating an international competition fund to be managed by a credible intergovernmental organisation, such as the OECD.

Such a fund should be accessible to competition institutions and non-government organisations (NGOs) in the developing world to strengthen their competition regimes.

Secondly, to enable the creation of such a fund, national laws in the rich world will need to be amended to allow a transfer of a scientifically determined amount from fines.

One has to remember that the case is to assess the damage of an international cartel on the developing world and allocate funds accordingly. We are not suggesting that fines be allocated on violations of a pure domestic jurisdiction, though some countries would not mind doing so.

Conclusion

As we live in a global village, rather than being scientifically fussy about precise impacts of such cartels on developing countries, it might indeed be more cost effective simply to levy a portion of fines in breaking up international cartels by assuming a certain effect on poorer countries. Such minima would help discourage cartels from forming in the first place.

For the OECD, competition is a natural fit. And at a time when the organisation is expanding its contacts with large developing countries such as China and India, setting up a new competition fund could help it build stronger relationships with smaller, poorer victims of cartels too.

China: The Impact of Five New ‘Super Ministries’

– Ashley M. Howlett

On March 11, 2008 it was announced that China will create five new “super ministries.” The goal of this move is to streamline the bureaucracy, clarify conflicting responsibilities, and curb corruption. The aim of the restructuring and creation of “super ministries” is to improve regulation, rule of law, and adherence to a market-based economy while simultaneously curbing corruption, decreasing pollution, and cutting down on turf wars between ministries and disparate sectors of the bureaucracy.



Macro-Level Changes

The key aspect of the shake-up deals with shifting the focus of the central government to overall macro-regulation of the economy and the continued transition from a central planned economy to one that is (mostly) market-based. According to the Chinese Government, the new macroeconomic functions of the three key institutions are as follows:

- a. The **National Development and Reform Commission** (NDRC) will focus on macroeconomic planning, paying particular attention to price controls and the management of energy policy. It will phase out its involvement in micromanagement of the economy and reduce its examination and approval role for specific projects. The placement of the NDRC industry project approval function under the control of the new and significantly larger Ministry of Industry and Information conforms to the new mandate of the NDRC.
- b. The **Ministry of Finance** shall reform and improve its management over budget and taxation.
- c. The **People’s Bank of China** shall strengthen the system of monetary policies and improve the mechanism of exchange rate formation.

The State Council also plans to strengthen the coordination amongst the three above-mentioned bodies; it is still uncertain whether a coordinating body for the three agencies will be established. Clearly, however, the three bodies are intended to work together on macroeconomic management.

One area that has not been addressed is the lack of supervision over the NDRC. Clearly, there have been some intense power struggles behind the scenes, and the three bodies are not on equal footing. The NDRC will set annual control targets to coordinate monetary, fiscal, and industry policies, and this means that it will remain a key player in the State Council.

Impacts On Construction

The least-discussed aspect of the restructuring in the Chinese, Chinese English-language, and foreign media was

the transformation of the Ministry of Construction into the Ministry of Housing and Urban and Rural Construction. The Ministry of Construction was renamed in order to emphasise its role in building affordable housing for low-income families in China. The media failed to provide specific details of the changes that will take place at the Ministry of Construction.

However, The New York Times cited Arthur Kroeber, managing director of Dragonomics, as its source when it stated that “the central planning agency (NDRC) would no longer have final approval on major construction projects”. This move conforms with the decision to transition the NDRC away from “involvement in micromanagement of the economy” towards a focus on macro-regulation. A further change that may impact construction was the ceding of the power to award investment contracts and licenses from the NDRC to provincial governments and city councils.

As provincial governments and city councils assume powers the NDRC had in the past, the decision-making process will become more decentralised. This may bring about positive changes, as it should clarify which level of government is responsible for interpreting laws and regulations and approving projects. It is equally possible that the transition of power to the local level may have a negative impact on construction in areas of China where local officials are ill-informed, corrupt, or incorrigible.

The new organisational scheme places the Ministry of Construction’s Urban Public Transport Management functions under the new Ministry of Transportation.

Conclusion

It appears that the central government is shifting its focus from overarching state planning to macroeconomic stewardship, which is evidenced by the decreased powers of the NDRC. It is also possible that the central government wants to focus its attention on pressing macroeconomic issues. By coordinating banking, regulation, and taxation more closely, the central government may be trying to curb inflation and slightly cool the economy without bringing about a downturn in the general standard of living. The central government has pledged to facilitate economic development, and this restructuring may be an attempt to fulfill this pledge in lieu of micromanaging parts of the economy over which it exercises little control at present.

– The article appeared in Mondaq.com on March 27, 2008.

Switzerland for Greater Cooperation

Walter Stoffel, President of Switzerland Competition Commission, wants greater cooperation with the EC in order to ensure coordination between the two agencies.

He said that although Swiss and European competition laws are very similar, “in terms of implementation, but currently there is no way to cooperate with the EU or neighbouring states”.



Competition experts say the comments are not surprising, because the lack of a legal basis for cooperation between the agencies leads to inefficiencies on the Swiss side, both in cartel investigations and merger control. Experts opine that a bilateral agreement would be a sensible solution to the problem. *(GCR, 03.06.08)*

Competition Law in Hong Kong

Hong Kong is about to come up with a new competition law and an independent commission to investigate abuses. A cross-sector competition law would be established to cover “hardcore” anti-competitive conduct such as price fixing, bid rigging, output restriction and market allocation.

The former British colony is one of the few advanced economies without a competition law. It has faced criticism for allowing sectors, such as electricity, property and supermarkets to be dominated by a few tycoons.

The Hong Kong General Chamber of Commerce declined to comment on the proposals, saying only that it would study them and solicit views from members before submitting a position paper. *(FT, 07.05.08)*

China Issues Regulations

China’s State Council has issued draft merger control regulations for consultation in advance of the

country’s anti-monopoly law entering into force.

The draft provides details on the thresholds for merger notification, as well as procedural information on the documentation required.

Under the draft’s specifications, mergers will have to be notified to the competition authority for three main reasons: when the global turnovers of the companies involved exceed US\$1.2bn and at least two companies’ sales in China exceed US\$42mn; in a merger when the turnovers of the Chinese companies involved exceed US\$240mn and at least two companies’ sales in China exceed US\$42mn; when the merger will cause a company to acquire a market share of more than 25 percent. *(GCR, 02.04.08)*

Amendments to Competition Act

The South African Parliament’s Trade and Industry Committee has been considering amendments to the country’s Competition Act.

Under the proposed law, guilty individuals would face penalties up to US\$67,164 and up to 10 years in prison. Another key amendment to the Act would entitle the commission to intervene in markets even if no illegal activity has taken place.

The so-called “complex monopoly” provision allows the Commission to investigate industries if two or more companies control at least 45 percent of the market.

According to sources, the amendment aims to help tackle former state monopolies and highly concentrated large industries in the country. *(GCR, 11.06.08)*

China to join ICN

China looks set to join the International Competition Network (ICN) as it prepares for its new anti-monopoly law to enter into force on August 01, 2008. Although China’s Competition Commission has made no official announcement, recent reports suggest the nation is planning to join the group of competition regulators.

Firstly, it would give the Chinese authorities a good insight into competition enforcement from the more mature jurisdictions, while at the same

time give China a seat at the table to input its views on international regulatory best practice.

Secondly, it could also lead to a greater degree of convergence in the approach to enforcement internationally. *(GCR, 15.04.08)*

More Power to Crack Cartels

South Africa’s revised Competition Act is set to give the country’s Competition Commission significantly more power to crack cartels. The new Act would “strengthen the hand” of the competition authorities.

According to sources, the amendment bill is likely to cover four general issues: complex monopolies, market inquiries, personal liability for company directors and other senior officers for the contravention of the Competition Act, and a review of the administrative penalty regime to strengthen the powers of the competition authorities.

Sources further stated that the cabinet issued a statement implying that it is unlikely to introduce criminal liability for price-fixing in the short-term. *(GCR, 22.04.08)*

Rich Nations Attacked Over Biofuels

Rich countries came under attack at the UN Food Summit for their biofuel subsidies and production targets, declining spending on development aid for agriculture and large subsidies to European and US farmers.

Jacques Diouf, Director General of the Food and Agriculture Organisation (FAO), told that “nobody” understood why cereals had been diverted from human consumption “mostly to satisfy a thirst for fuel vehicles”.

In an unexpectedly strong attack on western countries’ policies, he added that “nobody understands” why rich countries had “distorted world markets with the US\$272bn spent on supporting their agriculture.” Diouf said: “The problem of food insecurity is a political one”. *(FT, 03.06.08)*

Enhancing Capacity Building

Competition in the Jamaican economy will be enhanced with a provision of US\$700,000 to the Capacity Building in Competition Policy project for the 2008-09 fiscal year.

The project intends to strengthen the capacity of the Jamaica Fair Trading Commission (JFTC) to become an effective enforcer of competition policy in Jamaica; and better inform economic actors about the criteria and enforcement mechanisms of competition policy and the importance of competitive markets.

This will be done by improving the technical capacity of the JFTC, its knowledge management capabilities, and its outreach efforts. The project has been extended to March 2009.

(<http://www.jfs.gov.jm>, 01.04.08)

COMESA Elects Chairman

The Common Market for Eastern and Southern Africa's (COMESA) Regional Competition Authority elected Peter Njoronge as its first chairman. Njoronge is the former chair of Kenya's Monopolies and Prices Commission.

The Chairman of Malawi's Competition Authority, Llyod Muhara, was elected Vice-chairman. The Authority is expected to become operational in 2008, after the commissioners are sworn in before the council of ministers at the next policy meeting in Zimbabwe.

The COMESA Treaty requires the establishment of a Regional Competition Authority. Despite the formation of regional authority, not all of COMESA's member states have established competition regulations.

(GCR, 30.04.08)

Halving Duties on Price Imports

The Philippines, the world's largest rice importer, is considering more than halving duties on rice imports in the hope of attracting private sector buyers and breaking a long-standing *de facto* state monopoly on imports.

The Southeast Asian country has been among the hardest hit by soaring global rice prices amid a tightening global supply. A Government proposal to be reviewed foresees cutting the import duty on rice to either 20 or 30 percent, from 50 percent currently.

The Government is expecting that it will help lure private sector buyers after the state food agency recently failed to attract enough bids for the third time in four months in auctions to boost rice inventories. (FT, 01.04.08)

Benefits of Coming Clean

Cartel offenders in Canada may now have assurances about the benefits of coming clean, according to draft leniency guidelines.

The Canada's Competition Bureau says the guidelines are intended to add transparency and uniformity to the leniency process-when companies come forward during a cartel investigation to admit wrongdoing and assist with the investigation.

Under the guidelines, the first company to apply for leniency will continue to receive full immunity, but the second applicant could now see its fines reduced by up to 50 percent, as well as shield current employees and officials from the prospect of jail time.

(GCR, 28.04.08)

Egyptian Law Sparks Controversy

New amendments to Egypt's antitrust law have met with criticism, after provisions contained in the draft legislation were modified by Parliament. The law introduces a leniency programme into Egypt for the first time.

Under the draft proposal, companies applying for leniency would have been exempt from fines relating

to cartel offences. The Parliament rejected this proposal, and eventually passed a version of the provision in which leniency applicants will be exempt from a percentage of the fine to be decided by a judge.

The draft amendments also contained a provision to raise the level of fines for monopolies to up to 15 percent of a company's turnover. The bill was passed and once the law is published, practitioners and companies will have a better idea of how it will affect competition in Egypt.

(GCR, 27.06.08)

'Pro-Cartel' Policies

The Bagong Alyansang Makabayan (Bayan) and its member-organisations held a noise barrage picket protest along España Avenue in Manila to denounce the spiraling oil and rice prices and the Arroyo Government's failure to effectively address the crisis.

Holding empty pots and pans to symbolise the problem of high prices, Bayan activists blamed government's pro-market policy of deregulated prices as one of the main factors behind the worsening crisis.

Meanwhile, oil prices continue to escalate because of the continued implementation of the oil deregulation law and imposition of the 12 percent value added tax on petroleum products.

(<http://www.pinoypress.net>, 02.04.08)

IMF on Global Inflation

Global inflation has re-emerged as a major threat to the world economy, the International Monetary Fund (IMF) said in a stark warning that marked an abrupt change of tone from its emphasis on the risks to growth.

IMF said "inflation concerns have resurfaced after years of quiescence" due to soaring energy and food prices. The IMF warning came as crude oil prices hit a record of almost US\$124 a barrel, up 99 percent in the past 12 months, and customers scrambled to take out insurance against prices rising above US\$200 a barrel.

In an indication the commodities boom may not be the bubble imagined, IMF said the forces pushing prices up "appear to be fundamental in nature".

IMF said policymakers must respond aggressively to any sign of rising inflation expectations "lest the impressive gains in global stability attained in recent years be sacrificed".



(FT, 08.05.08)

The Puzzle of Oil Production

Why the Saudis are worried about the high price of crude?



With oil prices nudging US\$140 a barrel, Saudi Arabia stands to receive a windfall in 2008 of up to US\$400bn, double what it earned from selling oil in 2007. Gloom at the world's petrol pumps, it may be assumed, can only mean hand-rubbing glee for their biggest supplier. Such is the case with some of the kingdom's rivals in the Organisation of the Petroleum Exporting Countries (OPEC), the cartel that supplies over one-third of the world's crude.

Iran, for instance, has consistently argued against doing anything to bring down prices. Why, then, have the Saudis mounted a risky bid to do just that, by boosting oil output and summoning the world's top energy officials to an emergency meeting in Jeddah on June 22, 2008?

The reasons span history, economics and geopolitics. No one in the Saudi oil ministry has forgotten what happened after the oil shock in the 1970s. The Arab boycott called in 1973 to protest against Western backing for Israel tripled oil prices. But it also prompted oil exploration in tricky places such as the North Sea and conservation measures that reduced demand. The result was a long-term slump in crude prices and a drop in the Saudis' market share.

The Saudis fear that the intensified search by the West for alternative energy will result in the same thing happening again. But the more immediate worry is that high oil prices may slow not just America's but the whole world's economy. That would trigger a sharp fall in demand for Saudi oil.

Today's sky-high oil price carries another political risk. The tightness of the oil market has become, in effect, a line of defence for Iran, letting its radical leadership hint, truthfully, that any hostile act that may impede the flow of Iranian oil would risk a global economic decline.

So Saudi Arabia's motives for wanting to lower prices are clear. It supplies an eighth of the world's oil and remains, crucially, the only producer with at least some spare capacity. A huge investment plan under way should raise its capacity from 11.3m barrels a day in 2007 to 12.5m by 2009.

The Saudis are unlikely to bring new, lighter crude, or bigger refining capacity for their heavier oils, onto world markets until 2009.

(The Economist, 19.06.08)

Trust-busting or 'Fishing Expedition'

In 1970s, America five executives convicted of fixing the price of sticky labels ended up having to give lectures about their misdeeds in after-dinner speeches – cruel and unusual punishment for the audience, if not the culprits. Today there is a growing awareness that cartels not only raise prices, but also blunt other benefits of robust competition, from innovation to higher productivity.

Accordingly, America's trustbusters prefer to punish market riggers with fines and prison than with black ties and brandy. Their tactics – which combine criminal punishment with the promise of immunity for whistle-blowers – are increasingly being followed across the world. And just as well, because cartels look as if they are more sophisticated and commoner than anyone thought.

That, at least, may be what emerges from raids Britain's antitrust enforcer, the Office of Fair Trading (OFT), conducted towards the country's four large supermarkets. The investigation has only just begun, but one possibility is that supermarket buyers used some of the world's largest consumer-goods companies as a switchboard to swap information that would help them co-ordinate the prices of thousands of products, from soap to cola.

Through then multinational companies deny any wrongdoing, they complain that trustbusters have become too big for their boots and that they are on a "fishing expedition" designed to assuage populist dislike for big business — especially for powerful retailers.

The OFT's raids point to two different lessons. Far from staging a broad anti-business trawl, the OFT seemed to know exactly what it was searching for. It looks as if the regulator had been told what to ask for by a whistle-blower, which suggests the American approach could turn up



wrongdoing that investigators would never have spotted before.

Equally alarming is the suggestion that cartels are not just more prevalent, but also more sophisticated than anyone thought. Classic cartels are in dull, mature segments like glass and cardboard, where market shares are stable, brands cannot differentiate products and the cartel's members can easily check for anyone breaking ranks.

Governments waste a lot of breath on their plans to make the economy more competitive. What will count now is the spine to see through controversial investigations, however much fuss the grocers and the rest of them kick up.

(The Economist, 01.05.08)

● CARTELS

Cartel Rigs Prices of IPOs

A cartel, led by Mumbai-based operators, is using old price rigging tactics to shore up the stocks of certain recently-listed companies. These operators are targeting companies that raised around Rs 50-100 crore in the primary market. Their modus operandi is simple: use dummy retail investors to corner a majority of the shares offered to the public and then rig the prices.

Several Ahmedabad-based stock brokers are playing a key role in arranging dummy investors. The 'investors' apply for their full quota of shares. After allotment, they transfer the shares to the accounts of the brokers fronting for the operators in exchange for a 2.5 percent commission.

Earlier, retail investors used to subscribe to the primary issues that enjoyed a good premium in the grey market. However, the grey market has come to a standstill after punters lost heavily in the Reliance Power IPO.

(BS, 01.07.08)

Simultaneous Price Hike

India's Monopolies and Restrictive Trade Practices Commission (MRTPC) has accused mobile phone companies – Bharti Airtel, Vodafone Essar and Idea Cellular of price-fixing.

The Commission launched an investigation in 2007 after the three companies announced simultaneous tariff hikes. Local call charges were increased from Re 1 to 1.20 per minute, and standard network rates were increased by 10 percent on some pre-paid plans.

Experts opine that if found guilty, the Commission can issue a 'cease and desist' order against the companies. But the existing penalties are substantially smaller than those under the new Competition Act, the sources added.

(GCR, 09.04.08)

Possible Rice Cartel?

Thailand, the world's biggest rice exporter wants to form an OPEC and plans to talk with its counterparts in Laos, Myanmar, Cambodia and Vietnam about forming the cartel.

However, going beyond the immediate interests of rice exporters and importers, the truth is that a successful rice cartel is almost impossible to visualise. Even if the alliance partners agree on a price band, it will be difficult for them to control production and supply – which is the key requirement for a successful cartel.

This is so because some of these countries grow three or four crops of paddy in a year, unlike oil wells, which can be switched on and off, a paddy harvest cannot be so regulated.

On the other hand stocking up, as an option, could be expensive, especially if prices do not stay high. Nor can the farmers be coerced into increasing or reducing rice acreage.

(BL, 02.05.08)

● ABUSE OF DOMINANCE

Enquiry Against Steel Makers

Russia's Federal Anti-Monopoly Service is investigating the country's largest steel makers, following allegations of price-fixing in the market for steel pipelines.

The authority began its probe in April 2008, after receiving complaints from oil companies – Gazpromneft and Surgutneftegaz – about the price of metal used in oil and gas pipelines.

The Pipe Industry Development Fund, a non-commercial organisation, accused the companies of a "simultaneous and concerted price increase" of between 45 and 50 percent.

The steel companies claim the price hikes were a response to increased prices for raw materials, including coal and iron ore.

(GCR, 08.04.08)

Probe in State Aid

An emergency €300mn (US\$462mn) Italian Government loan to loss making airline Alitalia is to be investigated by the EC, which could order it to be repaid. Ryanair, the low-cost carrier, said that it would file a complaint about the deal, which would trigger a commission probe.

Any state aid must be vetted and approved by Brussels. However, there is little Brussels can do to stop the money being handed over. If it rules that it is state aid and must be repaid, it

can resort to the European court but that can take years.

Rome, however, maintains that the money is being lent at commercial rates and is vital to keep Alitalia from bankruptcy after Air France-KLM pulled out of talks.

(FT, 25.04.08)

Abuse in Oil Prices

A US regulatory probe into potential oil-market trading abuses is focusing on possible short-term manipulation of benchmark crude prices and the use of information related to important oil storage tanks to influence prices, the Wall Street Journal has reported.



The report comes a day after the Commodity Futures Trading Commission (CFTC), under pressure from US lawmakers to crackdown on speculators they blame for pushing energy prices to record highs, said it would step up market surveillance.

The CFTC announced a nationwide investigation into energy trading in December 2007, but is in fact pursuing several oil investigations, many of which relate to one another, citing people familiar with enforcement priorities of the agency.

(FE, 31.05.08)

Right to Damages

European consumers and businesses will get right to damages if they are the victims of anti-competitive conduct. Neelie Kroes, Europe's competition commissioner, said legislative proposals aimed at establishing a EU-wide system of compensation could be drawn up by the end of 2008.

The long-awaited proposals from the Commission, which reckons that businesses and individuals are losing billions of Euros annually from practices, such as price fixing, aim to

encourage more claims, while avoiding some of the excesses of the US system.

The Commission proposes that victims should be able to get back the real value of the loss they have suffered but not be able to make double or triple damages claims. (FT, 04.04.08)

Keeping Competitors Out

European competition regulators have stepped up their pressure on the energy sector, announcing a new antitrust probe against Gaz de France – the state owned utility.

According to officials, the latest investigation would look into allegations that the company had tried to keep competitors out of the domestic market by under-investing in the infrastructure needed to bring gas supplies into France and holding “long-term reservations” on transport capacity.

They also said that the probe resulted directly from information found during a “raid” on GDF’s premises two years ago. (FT, 23.05.08)

FINES & PENALTIES

Fined for Price Fixing

Japan Airlines has been fined US\$110m by the US Department of Justice (DoJ) for its role in a six-year global conspiracy to fix air cargo prices.

The Japanese carrier agreed to plead guilty to the criminal charge to become the fourth airline after British Airways, Korean Air and Qantas of Australia to be fined by the DoJ as part of a two-year investigation.



In 2007, EU competition regulators began formal anti-trust proceedings against a group of airlines, including

Air France-KLM, British Airways and JAL for their alleged participation in an air cargo price-fixing cartel.

(FT, 17.04.08)

Microsoft in Mess

Microsoft is to appeal against the US\$1.4bn penalty imposed on the company by Brussels due to the software group’s failure to comply with demands that it end anti-competitive business practices.

The world’s biggest software group said that it was asking the European Court of First Instance to annul the EC’s decision in which it imposed the penalty.

The fine is the largest financial sanction ever imposed on a single company for an antitrust breach and represents the first time that any group has been penalised for non-compliance decision taken by the Commission. (FT, 15.05.08)



PRICE FIXING

Charges against MNCs

The European competition regulators have sent formal charges to a group of multinational corporations (MNCs), alleging an international conspiracy to fix prices of marine equipment supplied to the oil industry.

The EC confirmed “a statement of objections has been sent to a number of countries active in the supply of marine hoses, concerning their alleged participation in a cartel in violation of EU rules on restrictive trade practices”.

Marine hoses are used to transport oil between tankers and storage facilities. In Brussels, officials declined to comment on the time period covered by the statement of objections, or the names of the companies. (FT, 06.05.08)

Bid-rigging on Big Scale

The UK’s OFT has accused 112 construction companies of bid-rigging activities following a three-year investigation into the industry.

If the allegations are substantiated the groups, which builds houses,

schools, hospitals and industrial and commercial buildings for both the public and private sectors, could face fines totalling tens of millions of pounds.

According to OFT cartel activity of this type alleged harms the economy by distorting competition and keeping prices artificially high. Further, he said that the investigation should send out a strong message to the construction industry about the seriousness to view anti-competitive behaviour.

(FT, 18.04.08)

Conspiracy to Fix Cargo Rates

Cargolux, the Luxembourg-based air cargo carrier, has made a US\$154.9m provision against potential fines arising from its alleged involvement in a global conspiracy to fix air cargo rates. The provision has pushed the group into a net loss of US\$47.1m, its first loss since 1993, and has forced it to stop paying a dividend for 2007.

Cargolux said it was under investigation by anti-trust authorities “in connection with a worldwide investigation of air cargo carriers regarding alleged price fixing practices and the exchange of confidential information”.

Cargolux said if all the cases were decided against it, they could have “a material adverse impact on the financial condition” of the group. (FT, 22.04.08)

Fix Prices on Consumer Goods

Municipal officials in Awassa town, the seat of Southern regional state 276Km south of Addis Ababa, have decided to fix prices on consumer goods and are determined to enforce it.

Prices would be fixed and controlled in order to fight inflation. This is a move contrary to what Prime Minister, Meles Zenawi, told Parliament in response to Bulcha Demekesa’s (MP-OFDM) concern that no country in the world has been able to succeed in controlling prices.

Although the Prime Minister responded by claiming that there would be no price fixing but this was a temporary measure in subsidising prices of basic commodities in order to bring prices down for the urban poor.

(www.allafrica.com; 01.04.08)

Ruling Overturned

Finland’s Market Court has overturned a ruling by the country’s Competition Authority on an energy-sector merger. The authority ruled in 2006 that divestments were required for Finland’s Fortum, an electricity producer, to acquire rival EON Finland

Fortum would have become the dominant player in the Finnish electricity market if the merger had been cleared without remedies.

Fortum argued that the definition should be extended to include Sweden’s electricity market, where its presence is not as large, because much of the provision of electricity in the two countries is through the same Nordic wholesale electricity exchange, NordPool. The court agreed with Fortum’s analysis. *(GCR, 03.04.08)*

Investigating Acquisition

The EC has opened an in-depth investigation into Associated British Foods’ acquisition of assets from rival GBI Group. Both companies manufacture and sell dry, compressed and liquid bakers’ yeast used in bread making.

The phase II investigation will consider the impact of the merger on the market for compressed bakers’ yeast in Spain, France and Portugal. The transaction was initially notified to the national competition authorities of affected countries, as it did not meet the thresholds for European notification.

However, the Commission will investigate whether the reduction of effective yeast suppliers in these markets from three to two would have adverse effects on competition.

(GCR, 17.04.08)

Leader in Eye Care

Novartis is expanding its eye care business with the US\$39bn acquisition of Nestlé’s American subsidiary Alcon. The deal will make Novartis the global market leader in eye care products, including surgical, pharmaceutical and consumer products. The transaction is split into two sections.

Novartis will buy 25 percent of Alcon from Nestlé for US\$11bn as soon as all the necessary conditions have been met, including antitrust clearance. It will buy the remaining 52 percent of Nestlé’s stake for US\$28bn in 2010 or 2011.

According to Novartis, the acquisition will balance the companies “complimentary product portfolios” and research and development synergies. *(GCR, 08.04.08)*

NZ Blocks Duty-free Merger

New Zealand’s Competition Commission has blocked a merger between DFS New Zealand and the Nuance Group, two providers of duty-free goods at the country’s airports. DFS and Nuance are currently the only general duty-free providers at Auckland airport.

The companies argued that exclusive contracts signed with the airports meant that they would not compete on the sale of duty-free after 2009 anyway, so a merger would not alter the competition situation in the market.

From 2009, DFS will be the exclusive provider of duty-free services at Auckland International airport, while Nuance will provide the same services at Wellington airport. The awarding of these exclusive contracts, valid from 2009, is also the subject of a commission investigation. *(GCR, 02.04.08)*

Role of Antitrust Authorities

Argentina’s Supreme Court has clarified the role of the country’s antitrust authorities and upheld the National Commission for the Defence of Competition’s authority to scrutinise and rule on mergers and acquisitions (M&As).

The ruling, made on April 16, 2008 ends four years of controversy ensuing from the Mendoza Court of Appeal’s order that the commission halt its investigation into the 2004 acquisition of the Disco retail chain by Chilean retailer Cencosud.

Experts opine that the ruling puts an end to four years of great uncertainty on the merger control process, which could be interrupted by any judge at any moment anywhere. *(GCR, 24.04.08)*

Monopoly in Karaoke

Taiwan’s Fair Trade Commission (FTC) has blocked a merger between the two largest karaoke companies in the country for the second time. The Commission ruled that a tie-up between Holiday Entertainment and Cashbox Partyworld would result in a monopoly in the karaoke market.

Together, the companies control more than half of the karaoke television service market in Taiwan. This is the third time the Commission has reviewed the proposed deal.

The Commission agreed to the merger, but with a provision that banned the companies from blocking emerging competitors. But the deal was dropped because the parties failed to reach a cooperation agreement. *(GCR, 23.05.08)*

World’s Largest Airline?

After months of speculation, Delta Air Lines and Northwest Airlines have agreed to merge, creating the world’s largest airline in a deal that’s expected to face intense scrutiny before it eventually clears.

The deal comes after the US Department of Transportation (DOT) granted the two airlines tentative antitrust immunity to combining operations and pricing on transatlantic flights between the US and EU member states.

Experts opine that although the DOT approval is at the moment tentative, if it becomes permanent, that would remove some potentially significant issues from an antitrust perspective. The approval would not prevent the EC from looking at the transaction, but the Commission would likely take the DOT’s analysis into account when assessing the deal. *(BS, 15.04.08)*



Merger to Shake up Bank

Westpac banking corporation and St. George Bank are planning a A\$20bn merger deal. The deal would shake up Australia's banking sector, creating the country's biggest financial services firm by market value worth about US\$58bn.

The Australian Competition and Consumer Commission (ACCC) has said that it would review the takeover bid once it receives notification from the merging parties.

If approved, the deal would create Australia's largest banking group. The combined company would control 25 percent of Australia's home loans market. St George is the fifth largest, and is therefore exempt from this regulation. *(FT, 13.05.08)*

Accused of Wrong Merger

Two Dutch livestock organisations have accused the EC of wrongly approving a phase-one merger of two slaughterhouse groups, Sovion and Hendrix Meat Group.

At a hearing before the European Court of First Instance on May 22, 2008, the associations said the tie-up created a dominant company able to control the prices charged to farmers for slaughtering services.

The organisations also claim that the Commission did not consider their concerns during the merger review. The merger created the largest pig abattoir in the Netherlands, and one of the largest in Northern Europe, according to the commission. *(GCR, 27.05.08)*

Proposed Telecom Tie-up

A merger that would create Brazil's largest telecoms company has been filed before the country's Administrative Counsel for Economic Defence (CADE). Telemar, Brazil's biggest telephone company, and Brasil Telecom, the country's fourth-largest, presented plans for their proposed tie-up before CADE on May 19, 2008.

The US\$3.5bn deal requires the approval of Brazil's antitrust and telecoms regulators, and is reliant on a change to the country's telecoms law.

Experts believe that the deal is likely to encounter any setbacks from a competition perspective.

Further, establishing Brazil's biggest telecoms company would create a national platform capable of

taking on the Latin America's dominant telecoms providers – Spain's Telefónica and Mexico's América Móvil – which have large market shares in Brazil.

(FT 28.04.08)

A Block to Joint Venture

Germany's Federal Cartel Office intends to block a joint venture between supermarket chains owned by Edeka and Tengelmann. The Office announced that it would block the joint venture in its current form as it had considered not only the national market.



The Office observed “that price competition would not be sufficient to limit the incentives for Edeka to behave anti-competitively”. The transaction would see Edeka's discount supermarket subsidiary Netto merge with Tengelmann's Plus discount chain, in a joint venture with a turnover of US\$16.9bn per year.

Edeka, which has a 25 percent market share in German supermarkets, would own 70 percent of the joint venture. *(GCR, 08.04.08)*

Denmark Blocks First Merger

Denmark's Competition Authority has blocked a tie-up between heating and electricity materials companies J F Lemvig-Müller Holding and Brødrene

A&O Johansen. This is the first time the authority has rejected a merger. Lemvig-Müller had hoped to buy A&O Johansen for €1.1mn (US\$1.7mn).

According to the Authority, the merger would have reduced the number of nationwide wholesalers of plumbing and heating materials from four to three and resulted in a combined market share for the three companies of 80 percent. On the electricity materials market, only two companies would have outlets nationwide, and they but with an even larger market share, the authority said.

The Authority is currently reviewing its merger thresholds, which its most recent annual report said were too high. Several transactions that have had anti-competitive effects were not reviewed in the past. *(GCR, 14.05.08)*

Global M&A Drops

Mergers and acquisitions bankers are bracing for more job cuts as volumes fail to recover from their first-quarter tumble, and the outlook remains bleak for the rest of 2008.

Global M&A activity fell 35 percent in the year to date to US\$1.579tr, according to the first-half data, as the credit crunch kept buyout firms away from large deals and economic uncertainty made companies reluctant to push the button.

Private equity buyout activity, which underpinned the recent M&A boom, fell 66 percent in Europe to US\$48bn and slumped by 86 percent in the US to US\$42bn in the first half. Several banks have already shed M&A jobs to try to adapt to the slower market, and there could be more cuts as the slowdown in activity eats into their income. *(Reuters, 28.06.08)*

Citigroup – A Mistake

The landmark merger that created Citigroup was a “mistake” that failed to benefit the financial services conglomerate's investors, customers and employees, says John Reed, who masterminded the US\$166bn deal with Sandy Weill in 1998.

Reed's comments come days before 10th anniversary of the merger announcement and underline the challenges faced by Vikram Pandit, who took over as Citigroup chief executive in December 2007.

Reed said it was unclear whether the company's model or its management deserved the greater share of blame for its problems. But he said Citigroup turned out to be a “sad story”.

“Citi's troubles today are a culmination of a set of problems. There has been a general weakening of the management fabric. The core of what was happening was a lack of supervision and structure at the managerial level.” *(FT, 04.04.08)*

Boardroom Still a Male Territory

A recent study of GCC boards carried out by The National Investor and Hawkamah, the Dubai-based institute for corporate governance, found that women occupied only 63 of 4,254 board seats of companies across the Gulf.



Only Kuwait and Oman bucked the trend – the two countries have more women on their boards than Italy and Japan. There is only one female board member of a public company in Saudi Arabia.

Lubna Olayan, a prominent businesswoman, was appointed to the board of Saudi Hollandi Bank in 2004. Since then no other Saudi woman has made it formally to the boardroom. (FT, 23.06.08)

'Untested' Corporate Governance

Foreign investors in the Shanghai and Shenzhen stock markets should not pin too much faith on China's "largely untested" corporate governance provisions, according to RiskMetrics Group, a provider of risk management services.

China opened its mainland equity markets up to Qualified Foreign Institutional Investors in 2002 and has since reformed its securities markets, mandated independent directors, made it easier to sue directors and brought financial reporting largely into line with international standards.

Among the concerns raised by RiskMetrics are the lack of investor protection afforded by independent directors; a shortage of trained and experienced auditors and accountants; and a relative lack of protection from insider trading. (FT, 06.04.08)

Promise of Big Changes

UBS the biggest European casualty of the US subprime turmoil, has promised big changes in corporate governance to address weaknesses that could have contributed to its problems.

According to sources, it would improve supervision by abolishing the three man "chairman's office" in favour of two new boardroom committees. Further, it would recruit two or three top outside bankers to boost boardroom expertise.

UBS official gave no timing for its plans or about how the company would find room for experienced outside bankers, given that UBS's statutes limit the size of its board, now full, and that no resignations are planned.

(FT, 13.04.08)

Japan Warned on Governance

Japan must improve its standards of corporate governance if it wants to stem the decline in investor confidence in the country, a group of the world's most influential institutional investors warned.

The group cautions that confidence in the competitiveness of Japan's capital markets and its economic vitality are at risk. "The system of corporate governance in most listed companies [in Japan] is not meeting the needs of stakeholders or the nation at large", it says.

The move marks the strongest effort by institutional investors in recent history to push the Japanese companies in which they own shares to improve their governance. While the government is unlikely to respond formally to the paper, it is likely to add to the pressures for reform.

(FT, 11.05.08)

Ernst & Young to Form Business

Ernst & Young is to launch the biggest shake-up of the professional services industry since the collapse of Arthur Andersen by merging its

European partnerships and integrating a further 42 countries into a single unit.

The move is the boldest shift by a Big Four firm to overcome the country-level legal and regulatory restrictions that have limited the national partnerships and frustrated their efforts fully to mirror the global reach of their multinational clients.

The new unit includes 87 countries and will be led by a single management team. The firms in the region already work closely but this will mark a new step by integrating them financially with a single profit-sharing scheme and region-wide investment decisions.

(FT, 20.04.08)

World Bank on Manila Road Bids

The World Bank has backed away from an innovative anti-corruption plan to cap tenders for some of the road projects it is helping to fund in the Philippines.

The lender announced that its directors had approved a stalled US\$232m loan for road building after the Southeast Asian country agreed to "comprehensive anti-corruption measures".

However, the World Bank said that after a special review of the loan it had decided to drop an experimental scheme to impose limits on international bids for at least four projects to be funded by the loan. The original aim of the caps was to see if they would help to curb the bid-rigging and overpricing.

(FT, 15.05.08)

Berlin to Reward Good Business

The German Government plans to make the country's first trademark for good business behaviour, as a complement to "Made in Germany" as a respected global brand.

The UN official responsible for promoting corporate responsibility said that large German companies were lagging behind competitors because they are often "too self-satisfied" to learn from developing countries or other businesses.

The trademark would be voluntary and would cover social and environmental standards, plus good labour practices and governance issues, such as anti-corruption policies.

(FT, 30.04.08)

Best Investment Destination

India and China, the world's two fastest growing economies, leads the list of best places for investment and development, driven by their current gross domestic product (GDP) growth rates, appropriate investment climate and substantial trade opportunities.

According to global consultancy Grant Thornton's International Business Report 2008 on emerging markets, China, India and Russia have emerged as the top three most favoured destinations for investment and development. The top three are followed by Mexico at fourth and Brazil at fifth place.

The study also revealed the presence of 22 other rapidly growing global economies, including Malaysia, Indonesia, Iran, Pakistan, Thailand and Poland that offer immense avenues for future growth.

Further, availability of low-cost yet highly educated labour force with strong work ethics, combined with fast industrialisation, technology deployment and a strong focus on infrastructure development is enabling these countries to close the gap with the more affluent and relatively slower-growing mature economies.

(BL, 26.05.08)



Damage By Corruption in Privatisation

Preliminary results within the first monitoring phase show the high risk of corruption in privatisation sector, prior to all because of lack of transparency in all phases of the procedure, as it was concluded in the report of the Transparency International in cooperation with the Bosnian Open Society Fund.

Legal framework in Bosnia with 13 different solutions defining these processes and 13 bodies which deal with privatisation process, open great possibilities for corruption and conflict of interest.

According to analysis and research of the Transparency International, direct damages caused by non-transparent privatisation processes, concession issuing and similar public agreements amount to over half a billion Bosnian Marks. (Bosnia News, 23.05.08)

Close Scrutiny of Wealth

Sovereign wealth funds and other overseas investors will face closer scrutiny by US regulators under changes to the way foreign deals are vetted on national security grounds.

The US Treasury is expected to clarify in new regulations that foreign investments falling below the 10 percent threshold can be investigated on security grounds.

The proposed regulations are expected to be opened for public debate before being finalised. The subtle change will affect any minority investor and is aimed at quelling concerns in Congress about foreign government-controlled investment funds.

(BS, 08.04.08)

Islamic Debt Financing

Indonesia's Parliament is set to pass a bill on Islamic debt financing. This will open up a new and potentially lucrative funding source for both the government and companies in the world's most populous Muslim nation.

Analysts see the law as a rare piece of good news for Indonesia, which is battling a ballooning budget deficit and soaring inflation, as it will make the country more attractive to Middle Eastern investors, many of whom only use Islamic products.

The legislation, which has taken two years to complete, is expected to be "extremely positive". Experts opine that internationally, there is plenty of money available in this area, so the law will give the government and the country access to additional capital.

(FT, 09.04.08)

Nationalising Cement

President Hugo Chavez has announced the immediate

nationalisation of Venezuela's entire cement industry. He said his Government could not allow private companies to export cement that was needed to tackle a severe housing shortage.

Three of Venezuela's largest cement companies are foreign-owned. Mexico said it would do everything possible to protect the interests of companies operating abroad.

The country has also begun nationalising its electricity, telecommunications and natural gas industries as part of Chavez's drive toward "21st century socialism".

(BL, 05.04.08)

Promoting Foreign Takeovers

Japan's Cabinet office will call for reforms to promote foreign takeovers of Japanese companies, including a cut in corporate taxes and a view of investment restrictions to dramatically increase foreign direct investment.

The proposals are expected to become policy after foreign investors criticised Japan's stance towards foreign direct investment as being protectionist.

Further, moves by the Ministry of Land, Infrastructure and Transportation to restrict foreign investment in airport terminals also triggered protest by more reform-minded politicians in the Cabinet Office.

(FT, 19.05.08)

Russia Sets New Investment Rules

Vladimir Putin, Russian President, signed a long-awaited law restricting foreign investment in Russia, which restricts foreign investment in any one of 42 sectors – from oil and gas to fishing and publishing – deemed strategically important to the country's security.

The new law, under consideration for more than three years, for the first time sets clear rules on sectors where investors have to seek special permission. Analysts warn that the new law would leave the door open for more sectors to be included in the future.

Russian officials claim the rules are more liberal than those in many other countries. But some foreign investors have said the list of restricted sectors is too long accounting for more than half the economy and that the language leaves too much scope for interpretation.

(FT, 06.05.08)

Poland for Mass Privatisation

Poland plans to privatise hundreds of businesses in a move that will halve the state-owned sector's contribution to the economy and give a shot in the arm to the Warsaw stock market.

The State will retreat from large areas of the economy – including tourism, shipyards, publishing and construction – under plans to sell off 740 companies within four years.

Officials opine that the sell-off would reduce the footprint of Poland's government-owned companies from 20 percent of GDP to no more than 10 percent. The programme is expected to bring in about US\$13.7bn over four years. *(FT, 18.05.08)*

UK Sells N-producer

British Energy, the UK's largest electricity producer is to be sold. Several bidders are said to be lining up for the nuclear power producer, including France's EDF, Germany's RWE and the UK's Centrica, which owns British Gas.

The company is expected to sell for about US\$21.4bn. The sale comes at a significant moment for the industry, in light of UK Prime Minister Gordon Brown's public backing for a new generation of nuclear power plants. The UK's Government owns 35 percent of the company.

Analysts opine that a bid from Centrica could not only help it develop its nuclear activities, but could also remove political "national champion issues" faced by the Government. *(GCR, 10.04.08)*

Buying Back Business

The New Zealand Government has bought back the country's main rail and ferry operating business from Australia's Toll Holdings for US\$522m after the two sides failed to settle a long-running funding dispute on upgrading the rail network.

The deal puts an end to an experiment in rail privatisation begun in 1993 with the sale of the network to US railway company Wisconsin Central and a consortium of New Zealand investors for NZ\$320m.

The Government's decision to take back the rail operating business is expected to win public support. The

Government's repurchase of the rail assets completes New Zealand's second large-scale renationalisation in recent years. *(FT, 06.05.08)*

Tie-up of Energy Group

French energy group Suez has sold its majority stake in Belgium's Distrigas – allowing it to proceed with its US\$154bn acquisition of Gaz de France. Suez sold its 57.25 percent stake in Distrigas to Italy's Eni on May 29, 2008.

The tie-up will create the largest buyer and seller of gas in Europe. The combined company is also poised to become the fifth-largest power producer in Europe.

The divestiture gives Eni a foothold in northern Europe, where it hopes to increase its presence. According to sources, the tie-up is "unlikely to create competition issues in itself", but warns that if the commission wants to bring down energy prices, bringing in new market entrants is no guarantee. *(GCR, 02.06.08)*

Singapore Makes India's Outward FDI

Indian corporate houses making overseas investments through big-ticket acquisitions are now quite established. But they seem to be doing so through countries that have either low tax rates or allow tax-free remittance of income.

Much of the outward foreign direct investment (FDI) by India Inc done between April and December 2007 was directed to Singapore, the Netherlands and British Virgin Islands (BVI).

These are intermediate stops before investments land in the final

destination country. Singapore, which is a business and financial hub for Asia-Pacific, had 37 percent share in FDI approvals (US\$5mn and above), followed by the Netherlands with 26 and 8 percent for BVI. *(BS, 14.04.08)*

Takeover Talks Collapse

Air France-KLM has pulled out of takeover talks with Italian unions representing Alitalia, leaving the lossmaking flag carrier facing imminent bankruptcy.



The Government had already accepted the Air France-KLM offer for its 49.9 percent stake in loss making Alitalia on the basis of one share in the new group for every 160 Alitalia shares.

"It would be bitter destiny if the company, dragged down for years because of a perverse relationship with politics, got its mortal blow from exploitation for election purposes or from the lack of a deal with unions," experts warned, referring to threats by opposition leader, to veto the deal if he wins mid-April elections.

Union leaders, are however, calculating that the whole bidding process for the Italian airline could be reopened with a new Government. *(FT, 03.04.08)*

Nigeria Cancels Sale of Steel Plant

The sale of Nigeria's biggest steel plant to an Indian company has been cancelled after an inquiry found that the privatisation process was riddled with abuses. Nigerian President, has reversed sales of several state assets perceived to favour business allies of Olusegun Obasanjo, the previous president.

The Government said it was rescinding a 10-year concession granted to Global Infrastructure Holdings to run the Ajaokuta Steel Company and the National Iron Ore Mining Company.

Ajaokuta was hailed as a flagship for Nigeria's industrial ambitions when it was started 27 years ago. It has sucked up billions of dollars of Government's money but been moribund for much of its life. *(FT, 03.04.08)*

No Competition in Mail Delivery

A report has found that liberalisation of the UK postal service has failed to benefit end users. It says that although the 2006 liberalisation of the UK postal services market, which ended Royal Mail's 350-year monopoly, has resulted in greater competition for mail collection and sorting.

Royal Mail's economies of scale give the company a significant advantage over competitors for delivery, and "some carriers believe that any investment in a delivery network would be threatened by Royal Mail's ability to impede competition in the future".



The report finds that since liberalisation large businesses that send mail in bulk have a choice of services, greater flexibility in negotiating contracts and greater assurance about the quality of services. But small businesses have not been so fortunate. *(GCR, 06.05.08)*

Monopoly over Airports

British Airports Authority's (BAA) near-monopoly over British airports, including Heathrow, appears to harm consumers, UK competition watchdogs said in a report that left the embattled

company's Spanish owners facing a struggle to avoid being broken up.

The Competition Commission will call for evidence on how potential new owners of British airports could overcome severe capacity constraints and bring more competition to the industry.

The Commission has made no conclusive findings nor a decision to order a break-up of BAA, but it wants information from other companies – including rival airport operators – so it can model what an industry under wider ownership might look like. *(FT, 22.04.08)*

Calls for Water Competition

Ofwat, the UK's water regulator, has proposed a vast liberalisation of the sector by unbundling existing water companies and possibly withdrawing regulations once the markets are opened.

The proposal is the latest installment of Ofwat's attempt to introduce further competition in the industry.

If successful, the proposal would open up the country's water and sewerage markets to several new competitors and create new challenges for water companies and their legal advisors. *(GCR, 16.05.08)*

Plan to Overhaul Regulation

Pressure on Brussels to water down aspects of its ambitious plan to overhaul regulation of the European telecoms sector is expected to increase with a key parliamentary report on the proposed legislation made public.

The Commission has sought a shake-up of how spectrum is managed,

as well as the introduction of a trading system for the resource. Its aim is to open up prized frequencies to new pan-EU services and spur competition.

Further, the report suggest that regulators encourage fixed-line phone companies to build high-speed, next-generation networks by allowing them to make a 'reliable return' in exchange for giving competitors non-discriminatory access to infrastructure. *(FT, 22.04.08)*

Use-it-or-Lose-it

Airlines can trade take-off and landing rights, the EC said lifting the threat of legal action hanging over the practice and opening the door to greater competition as part of a transatlantic-aviation deal.

Under the open skies agreement, which came into effect in March 2008, EU and US airlines can fly between any two points, replacing a system of bilateral relationships that had restricted carriers to their domestic hubs.

The Commission envisages a law that would require a "coordinator" to create a pool of such slots and allocate them, with the first 50 percent going to new applicants. It would retain the "use-it-or-lose-it" provisions designed to prevent carriers from blocking rivals or wasting airport capacity. *(FT, 01.05.08)*

Regulator Warns US Bank Failures

US bank failures could rise above "historical norms" as a weakening economy puts pressure on badly underwritten loans, particularly in commercial real estate, according to a bank regulator.

John Dugan, who oversees about 1,700 national banks as comptroller of the currency, said the growing problems for lenders follow a period of almost four years in which no institution regulated by his agency had failed.

"We are going to have some more bank failures that will come back more to historical norms and may go above that with time", he said. "That is a natural consequence of the economy going from historically exceptionally benign credit conditions to something that is more normal to something you would get in a downturn". *(FT, 22.04.08)*

Order to Examine Fuel Prices

The Portuguese Government has asked the National Competition Authority to look into the rising price of liquid fuel in the country. The Minister of Economy and Innovation asked the authority to review the sector after prices for liquid fuel, including petrol, rose sharply over the past months, the authority says.

The Authority says it will look into whether "successive increases" in the sector since the beginning of the year have developed in line with the free market and "a healthy and fair competition."

This is at least the second such inquiry into fuel prices the Government has requested in the past three or so years. The requests typically follow increases in the price of oil globally, and have not yet resulted in any anti-competitive findings or substantive action. *(GCR, 02.05.08)*

Regulator Must Oversee Trade Competition

– James Thuo Gathii

A market economy presupposes the effective functioning of a number independent of institutions. A central bank and a ministry of finance to oversee monetary and fiscal policy; a capital markets authority to oversee the market in both long and short term securities and a stock exchange to facilitate the market in certain securities.

An institution regulating competition in the market place is another important prerequisite of an effective market economy. In Kenya's case, this authority falls within the mandate of the Monopolies and Prices Commission. This important body is headed by a Prices and Monopolies Commissioner.

Under current law, the Monopolies and Prices Commissioner is charged with the responsibility of ensuring there are no barriers for new entrants in any field of production or distribution. The commissioner is also charged with the responsibility of reducing or eliminating obstacles that consumers face in acquiring goods or services at fair prices.

In terms of his responsibility of eliminating and reducing the existence of such barriers, the commissioner compares and contrasts the market situation with the presence of the obstacles relative to the situation that would exist in their absence.

The law then specifies a number of restrictive trade practices such as discriminatory rebates given by a supplier to one and not other retailers. In addition, the law also prohibits predatory practices such as deterring a person from establishing a competitor, from establishing a business or preventing someone from producing or trading in any goods and services.

Another important responsibility of the Monopolies and Prices Commissioner is to make sure that no one induces a competitor to sell assets to, or merge with, another party, whether that party is the offender himself or a third person.

The law gives the commissioner wide investigatory powers to ensure firms are operating in a competitive environment. Members of the public may make a complaint to the commissioner to investigate restrictive trade practices.

But the law does not create a right for members of the public to sue those involved in practices inconsistent with the overall objective of achieving greater efficiencies in our economy.

That is why the Monopolies and Prices Commissioner should be playing a visibly more active role than at present in meeting the objectives of competition law and policy, especially given the advisory nature of that office's role to the Minister of Finance.

For example, I do not remember hearing the Commissioner's involvement or that of the Minister of Finance in the Stanbic/CFC or the Carbacid/BOC mergers among other recent similar transactions. Another merger

Acquisition of Kobil by Kenya Oil Company Limited (Kenol) is among transactions that the Prices and Monopolies Commissioner should have been involved in and analysed effects on the market.



transaction was the acquisition of Kobil by Kenya Oil Company Limited (Kenol).

So if the Commissioner and the Minister for Finance were not vetting these transactions for their implications for competition in our various industries as required by law, then who was?

Assuming the Ministry of Finance and the Commissioner were involved in analysing the effects of these mergers on the market and they approved them nevertheless, why did the decisions not get the publicity that the CMA decisions on similar issues generate?

The question of whether or not there was abuse of market power, or whether any mergers occurred in ways injurious to competition in the foregoing instances was not at least publicly canvassed.

What exactly the Monopolies and Prices Commissioner has been doing. Why has the Commissioner been so quiet? We ought to know when a big merger is proposed in any sector what its impact on competition is going to be.

Now is the time to address the role of the Monopolies and Prices Commissioner to make it a more effective institution as it ought to be. If the CMA has problems, the Monopolies and Prices Commissioner is woefully powerless. The Commissioner cannot, unlike the CMA, initiate proceedings to prosecute those flouting the law.

This means the Minister of Finance has effectively emasculated the Monopolies and Prices Commissioner's mandate and subordinated its role to this parent ministry.

This is unacceptable for an economy with aspirations such as those described in Vision 2030. This is the time to empower Monopolies and Prices Commissioner to make the office a more effective overseer of our competition law and policy. This will require clear written guidelines on both the powers of the commissioner and the obligations of market players.

– Governor George E. Pataki Professor of International Commercial Law and Associate Dean for Research and Scholarship Designate at Albany LA. The article appeared in the Business Daily, June 24, 2008.

Why Financial Regulation is both Difficult and Essential

– Martin Wolf

Nice try; no cigar. That was my reaction to the attempt of the banking community to forestall additional regulation, by recommending “a suite of best practices to be embraced voluntarily”. It was also the reaction of the policymakers meeting in Washington over the weekend. More regulation is on its way. After frightening politicians and policymakers so badly, even the most optimistic banker must realise this. The question is whether the additional regulation will do any good.



In an interim report on “market best practices”, the Institute for International Finance, an association of bankers, offers devastating self-criticism. Here then are some of the weaknesses it identifies: “deteriorating lending standards by certain originators of credit”; a “decline of underwriting standards”; an “excessive reliance on poorly understood, poorly performing and less than adequate ratings of structured products”; and “difficulties in identifying where exposures reside”. One cannot buy a voluntary code from people who describe their own mistakes in this brutal manner? There are two powerful additional reasons for not doing so.

First, in such a fiercely competitive business, a voluntary code is almost certainly not worth the paper it is written on. When they can get away with behaving irresponsibly, some will do so. This puts strong pressure on others. That is what Willem Buiter of the London School of Economics said: “Self-regulation stands in relation to regulation the way self-importance stands in relation to importance.”

Second, the industry has form. The IIF itself was founded in 1983 in response to the developing country debt crisis. At that time, big parts of the west’s banking system were in effect bankrupt. Now, many upsets later, we have reached the “subprime crisis”. The IIF was created not only to represent the industry, but to improve its performance. It is clear that this has not worked.

Should this industry have apparently failed to improve its standards of performance over the past century? After all, almost every other industry has done so. Consider how confident we are that the food we buy will not poison us. Yet adulterated food was once a threat.

Consider the failures of the banking industry. Its purely operational performance is now impressive. But competition does not work well in finance. The “product” of the financial industry is promises for an uncertain future, marketed as dreams that can readily become nightmares. Customers are readily swept away by exaggerated promises, irrational beliefs, misplaced trust and sheer skulduggery.

Boeing would not survive if the aircraft it built fell out of the sky. Yet in the financial industry, huge blunders are also almost always made in common. If everybody is in the dance nobody is to blame and, in any case, governments,

horrified by the consequences of a collapsing financial system, will come to the rescue.

Once the US itself ran a large current account deficit the concomitant accumulations of internal debt generated huge losses, as the excellent new Global Financial Stability Report from the International Monetary Fund points out. The one good thing is that estimated losses of close to US\$1,000bn are widely distributed.

Interestingly, there is substantial convergence on the substance between the IIF and the authorities, as shown in a devastatingly critical recent report from the Financial Stability Forum on “enhancing market and institutional resilience”.

The agenda laid out in the official report is lengthy. It includes: strengthening prudential oversight of capital, liquidity and risk management; enhancing transparency; changing the role and uses of credit ratings; strengthening the authorities’ responsiveness to risk; and improving arrangements for dealing with stress. But, it should go without saying, policymakers also believe regulation must be tougher.

Regulators are doomed to close the stable doors behind financial institutions that always find new and more exciting ways of losing money.

If regulation is to be effective, it must cover all relevant institutions and the entire balance sheet, in all significant countries; it must focus on capital, liquidity and transparency; and, not least, it must make finance less pro-cyclical.

Will it ever work perfectly? Certainly not. It is impossible and probably even undesirable to create a crisis-free financial system. Crises will always be with us. But we can surely do far better than we have been doing. In any case, we are doomed to try.

– Associate Editor and Chief Economic Commentator, *Financial Times*. The article appeared in the *Financial Times*, April 15, 2008.

Getting the Policy on Governance Right

– Dani Rodrik

Economists used to tell governments to fix their policies. Now they tell them to fix their institutions. Their new reform agenda covers a long list of objectives, including reducing corruption, improving the rule of law, increasing the accountability and effectiveness of public institutions, and enhancing the access and voice of citizens. Real and sustainable change is supposedly possible only by transforming the “rules of the game” – the manner in which governments operate and relate to the private sector.

Traditional recommendations like free trade, competitive exchange rates, and sound fiscal policy are worthwhile only to the extent that they achieve other desirable objectives, such as faster economic growth, lower poverty, and improved equity.

By contrast, the intrinsic importance of the rule of law, transparency, voice, accountability, or effective government is obvious. We might even say that good governance is development itself.

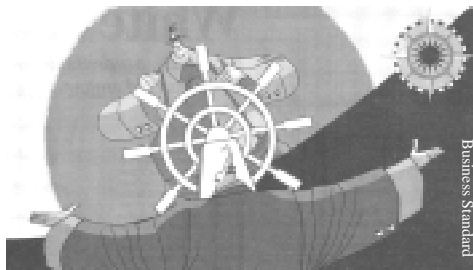
Unfortunately, much of the discussion surrounding governance reforms fails to make a distinction between governance-as-an-end and governance-as-a means. The result is muddled thinking and inappropriate strategies for reform.

Economists and aid agencies would be more useful if they turned their attention to what one might call “governance writ small”. This requires moving away from the broad governance agenda and focusing on reforms of specific institutions in order to target binding constraints on growth.

Poor countries suffer from a multitude of growth constraints, and effective reforms address the most binding among them. Poor governance may, in general, be the binding constraint in Zimbabwe and a few other countries, but it was not in China, Vietnam, or Cambodia - countries that are growing rapidly despite poor governance - and it most surely is not

in Ethiopia, South Africa, El Salvador, Mexico, or Brazil.

As a rule, broad governance reform is neither necessary nor sufficient for growth. It is not necessary, because what really works in practice is removing successive binding constraints, whether they are supply incentives in agriculture, infrastructure bottlenecks, or high credit costs.



Good governance is, of course, essential insofar as it provides households with greater clarity and investors with greater assurance that they can secure a return on their efforts. Placing emphasis on governance also has the apparent virtue of helping to shift the focus of reform towards inherently desirable objectives.

It is not sufficient, because sustaining the fruits of governance reform without accompanying growth is difficult. As desirable as the rule of law and similar reforms may be in the long run and for development in general, they rarely deserve priority as part of a growth strategy.

“Governance writ small” focuses instead on those institutional arrangements that can best relax the constraints on growth.

In a previous era, an economic adviser might have recommended specific fiscal and monetary policies – a reduction in fiscal expenditures or a ceiling on credit - geared at restoring macroeconomic balances. Today, that adviser would supplement these recommendations with others that are much more institutional in nature and fundamentally about governance.

Macroeconomic policy is an area in which economists have done a lot of thinking about institutional prerequisites. The same is true in a few other areas, such as education policy and telecom regulation.

But in other areas, such as trade, employment, or industrial policies, prevailing thinking is either naive or non-existent. That is a pity, because economists’ understanding of the substantive issues, professional obsession with incentives, and attention to unanticipated consequences give them a natural advantage in designing institutional arrangements to further the objectives in question while minimising behavioural distortions.

Designing appropriate institutional arrangements also requires both local knowledge and creativity. What works in one setting is unlikely to work in another.

Unfortunately, the type of institutional reform promoted by, among others, the World Bank, IMF, and the World Trade Organisation is biased towards a best-practice model, which presumes that a set of universally appropriate institutional arrangements can be determined and views convergence towards them as being inherently desirable.

But best-practice institutions are, by definition, non-contextual and cannot take local complications into account. Insofar as they narrow rather than expand the menu of available institutional choices, they serve the cause of good governance badly.

Good governance is good in and of itself. It can also be good for growth when it is targeted at binding constraints.

Too much focus on broad issues, such as rule of law and accountability, runs the risk that policymakers will end up tilting at windmills while overlooking the particular governance challenges most closely linked to economic growth.

– Professor of Political Economy at Harvard University’s John F. Kennedy School of Government. The article appeared in the *Business Standard*, May 15, 2008.

Turbulence Ahead

For as long as it has stood, Heathrow, the world's busiest international airport, has both awed and infuriated travellers. On April 22, 2008 the Competition Commission, which investigates whether markets are working properly, said that neither airlines nor passengers had been well served by the fact that London's three main airports are owned by the same firm. BAA had been slow to build new terminals and runways, it maintained. Although this report is just the commission's first word on the subject, it suggests that the watchdog is leaning heavily towards breaking up BAA.

BAA seems to be preparing itself already to divest some of its airports. Colin Matthews, the former boss of a water company who took over as chief executive of BAA in April, shook up the firm management on April 21 in order to give senior executives a bigger say in what happens at Heathrow, the jewel in its crown.

But breaking up BAA may be easier ordered than done. It is not yet clear whether its dismembered bits will turn out to be serious rivals, and whether the bracing winds of

competition can substitute effectively for the stifling hand of regulation. Complicating these deliberations are BAA's strained finances.

On current plans, BAA needs to spend about £5bn (US\$9.30bn) over the next five years to modernise and expand Heathrow. It is not only BAA that came in for the Competition Commission's ire: so too did the Civil Aviation Authority, which regulates airports' fees and services, and the government, which decides where airports should be built or expanded. BAA has led both by the nose, the commission suggested, and encouraged policies that have exacerbated the shortage of runways and terminals.

Splitting apart London's airports could change things for the better. Yet optimism must be tempered. New facilities take years to build, and Heathrow has a tendency to disappoint. In less than a decade we were bemoaning cost overruns on its new terminal building and pitying passengers "queuing in crocodile through the huts on the north-east side".

(The Economist, 24.04.08)

Finding fault with Heathrow and its owner was the easy part



Business of Charity

– Sreelatha Menon

The business world seems to be suddenly consumed with goodness. Every company wants to talk about the nice things it is doing for slum children, village girls, weavers and farmers. Coke, Pepsi, ITC, Tatas, Reliance, all have a list of goodies for the community. Little drops of joy as some would call it.

The industry calls it Corporate Social Responsibility (CSR), while the cynical social action groups call it Co-option of Social Resistance.

Retail chains, which were at the receiving end of mob fury till the other day, have found in CSR a tool to woo their enemies. Street vendors, physically handicapped, senior citizens, dropouts, all are welcome to work with them.

If you smell trouble, you can also run a health van. The gentle dabs of a dentist on the gums of angry villagers is a sure way to make them consider selling a bit of their farmlands to the company.

The beleaguered business community nursing its wounds from Singur, Orissa and the numerous special economic zone and big retail riot spots admits that CSR is no longer charity. It is a business strategy. ITC for its part has made CSR into a fine art by revolving its business around it. E-choupals are aimed at empowering

CSR will soon become a non-tariff barrier and companies will have no option but to do it to get investors and buyers.

farmers as much as at its business of procuring food grains and potatoes for its products.

Reliance is following suit through its farmer advisory cells coming up in villages, assisting its fledgling jathropha plantation and dairy procurement projects.

According to the Confederation of Indian Industry (CII), the urgency of

companies to push their CSR initiatives is driven by the fact that CSR would soon be a non-tariff barrier and companies would have no option but to do it to get investors and buyers.

IT companies Intel, Dell and Microsoft have been aggressively distributing computers and doing everything to bridge the digital divide, putting to shame even the government's own programmes.

Among Indian IT companies, Satyam, Infosys and Wipro are now also known for the work they do in the community apart from their offices.

Similarly, Coke's foundation is in the hands of people who would normally be on the other side of the fence. There is a headmistress, a poet, an actor, a social worker, a retired chief justice and a cardiologist in the outfit. Now, if 'jholawalas' call it co-option, that is more employment for them to pierce the corporate veil.

(BS, 04.05.08)

About a Competition Law – Burkina Faso*

Burkina Faso situated in the heart of West Africa acquired independence on August 05, 1960 under the name Haute Volta (Upper Volta), which was later changed into Burkina Faso. The official language is French. It has an area of 274,000 Sq. Km with a population of more than 12 million inhabitants.



Economy

Classified among the poorest countries of the world, its adult literacy rate is less than 25 percent and it is at the 173rd place of the 175 nations in the UN Human Development Index. Burkina Faso is one of the eight member-states of the West African Economic and Monetary Union (WAEMU) or UEMOA (*Union Economique et Monétaire Ouest Africaine*) – its name in French. Its economy is mainly based on agriculture and cattle rearing. Since 1991, Burkina Faso has entered the process of liberalisation of the economy, through important reforms in favour of a market economy and free competition. This evolution has been realised at the national and community levels.

Competition Evolution and Environment

A. National Level

Burkina Faso has progressively brought the liberalisation of its economy, in the fields of commerce and prices, in particular. It has also brought in privatisation, the setting up of a competition regime and the training of agents responsible for the realisation of the competition law and policy.

B. Community Level

Since July 01, 1996, crude and handicraft products circulated freely in the UEMOA territory. A plan for the harmonisation of internal taxation was evolved and established in 1998. Since January 01, 2000, industrial products were exempted from duties and entrance taxes. On January 01, 2000, the exterior tariff came into application. In May 2002, the community competition legislation was adopted. This legislation was implemented from January 01, 2003.

Competition Law and Policy

1) The National Competition Law

Burkina Faso has adopted a competition law, (No 15/84/ADP of May 05, 1994) related to the organisation of competition in Burkina Faso. The law defines three types of violations likely to affect the normal administration of competition. They are:

- anticompetitive practices (agreements between enterprises, abusive exploitation of a dominant position on the interior market);
- restrictive competition practices (imposed prices, below cost-price selling, non conformity to billing regulations, non communication of price ranges and conditions of sale, refusing to sell, discriminatory practices among professionals, disorderly sales, para-commercialism, non-

compliance to regulations relative to consumers' information, false advertising); and

- fraudulent practices at import and export levels, on guarantee and after-sales service, selling substandard goods and non-respect for the safety of consumers.

2) Community Competition Legislation

Community law on competition came into effect since January 01, 2003, which deals with regulations relative to anticompetitive practices by firms, namely, agreements and abuse of dominant position, concentration among enterprises, public assistance likely to affect competition, financial relations between member-states.

There are two types of regulations, namely those relative to firms and those relative to States. The texts of the regulations and the directives define the structures or organisations regulating competition within the UEMOA territory, the place and role of the national structures, mechanisms, procedures and sanctions. This implies that the texts are applicable to all the states of the UEMOA. Every state must comply with them.

Consumer Protection

Burkina Faso is considering a comprehensive legislation on consumer protection. A law has already been drafted for this purpose. Many aspects of consumer protection are taken care by some existing laws though they are not strong enough. Burkina Faso has three consumer organisations, namely: The Burkina Consumers' Association, The Burkina League of Consumers, and The Burkina Consumers' Organisation.

The objectives of all these organisations are to advocate the material and moral interest of consumers, by giving them assistance and informing them on their rights and duties. It must be underlined that these organisations do not have decision-making or sanctioning powers against economic operators.

Future Scenario

The effectiveness of the competition law and policy is the result of long-term practice. Competition law and policy within the UEMOA is in the process of consolidation, as a result of the action of those who are responsible for its implementation and a supportive political will. Problems that restrain or limit the implementation of the competition regime exist. Among them, are the lack of competition culture, dominant position of cartels and imported goods in the economy and the limitations of implementing bodies.

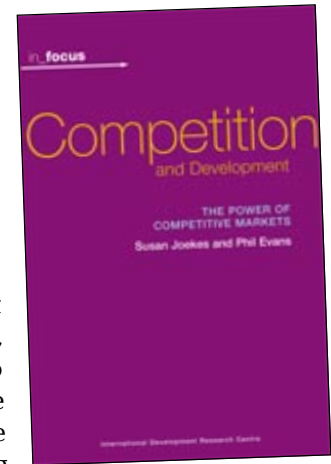
* Extracted from 'Competition Regimes in the World – A Civil Society Report'. (www.competitionregimes.com)

The Power of Competitive Markets

The growth of privatisation and international trade and investment, and the spread of bilateral and multilateral trade agreements have increased economic integration, affecting almost all nations of the world. This new reliance on private enterprise has brought about many changes in the economic structure and production capacity of developing countries. However, it has also made developing countries more vulnerable to new and harmful types of anti-competitive business practices.

This book co-authored by Phil Evans and Susan Joeques published by IDRC, Canada demonstrate the importance of true and fair competition to sustainable development and an effective marketplace, touching on issues of globalisation, consumer welfare, cartels and monopolies, and trade liberalisation. It provides an introduction to competition, and competition law and policy in developing countries. It focuses on the practical problems faced in developing countries and the steps that have been and can be taken to overcome them. It is about anticompetitive practices as they occur in developing countries and the policies that governments and citizens can promote and practise to curb them.

The book will be of particular interest to consumer's groups and NGOs, as well as to government officials, legislators, trade negotiators, and the judiciary. Educators, students, development professionals, and business groups will also find the book useful.



For more, please visit: www.idrc.ca/in_focus_competition



CIRCular

CIRCular a quarterly newsletter of CUTS Institute for Regulation and Competition (CIRC), carries a brief analysis on the celebration of 25 glorious years of CUTS. In 25 years, CUTS' expansion – from a garage in Jaipur to a full fledged centre in Geneva – has been a journey full of hard work, dedication and support from various national and international organisations and individuals. The sense of celebration gives it the strength to carry forward its programmes and activities on a much wider scale, so that more and more people could be benefited.

Special article by B Ramalinga Raju entitled, 'Capacity Building: It is an industry' analyses the need for all stakeholders: local, state and central governments, industry, educational institutions, faculty and students to come together on a common platform to ensure that India continues to position itself as the knowledge capital of the world.

The section 'News & Views' carries glimpses of events and activities of CIRC during the period.

This newsletter can be accessed at: http://www.circ.in/pdf/circular11_apr-jun08.pdf



Forum

Researching Anti-competitive Practices

This refers to your letter dated April 11, 2008 regarding the research conducted by CUTS International on the need for a Competition Policy for India. There is no gainsaying that there are many policies and practices prevalent in the mammoth organisational machinery like the state government, which favours anticompetitive regimes at different levels of working.

Research studies conducted by professional institutes and voluntary organisations like CUTS bring such anomalies to the fore and help in suitable rectification, beneficial both to the state in general and the consumer in particular.

I hope that CUTS would take up more such issues resulting in the betterment of governance and establishment of a civil society.

Sunil Arora

*Principal Secretary to Chief Minister
Government of Rajasthan*

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sources

BL: The Hindu Business Line
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FT: The Financial Times
GCR: Global Competition Review

The news/stories in this Newsletter are compressed from several newspapers. The sources given are to be used as a reference for further information and do not indicate the literal transcript of a particular news/story.