



**Foreword by the
Director General**

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for consumers is what the
OFT is all about**

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Making markets work well for consumers is what the OFT is all about. The wide range of work that we are doing towards that goal is set out in this Annual Report.

6 It is my first Report as Director General, and in this foreword I want to explain the strategy that drives what we do.

MAKING MARKETS WORK WELL

Markets work well for consumers when fair-dealing businesses are in vigorous competition for custom. Consumer power is the power of confident choice. The OFT's job is to strengthen the grounds for consumer confidence and, through competition, the power of choice.

Markets will not work well for consumers unless they also work well for businesses that are good at providing what consumers want. Being pro-consumer means being pro-good-business too. Equally certainly,

it means being anti-bad-business. The OFT's prime targets are businesses that exploit consumers – for example, by rigging markets or trading unfairly.

Markets that work well for consumers are, moreover, essential for good economic performance generally. Competition spurs productivity. And with fair trading, productive efforts are directed positively – at what people want, not at profiteering at their expense. So although the OFT works market-by-market, the sum of our work is just as much geared to the performance of the UK economy as that of, say, the Bank of England.

Indeed the markets that we cover span more or less the whole economy. It is not only retail markets that matter for consumers. All the supply chain matters, as world oil prices show. While OPEC is beyond our scope, the OFT will certainly break and fine all cartels unearthed in the UK.

Making markets work well affects everyone in their daily lives. Food and drink, credit, travel, professional services, communications, and health are just a few of the sectors of the economy where OFT action is making a real difference for consumers.

WORKING FOR CONSUMERS AND COMPETITION

The task is to help markets work well. The OFT's tools are its powers under consumer and competition legislation. I hope that these powers – especially consumer law – will soon be strengthened. But the immediate question is how best to use the powers that we have.

Consumer credit

Customers are the front line in any market. Promotion of consumer awareness is therefore a key part of OFT strategy. In the weeks before Christmas we ran a high-profile campaign on indebtedness. This did not argue against borrowing. It said: think hard whether you can afford to borrow, and shop around if you decide to. The campaign also highlighted where to go for advice on debt problems.

But consumer awareness and the encouragement of responsible borrowing are only part of the strategy. While much of the credit industry works well for consumers, there are rogue traders and unfair practices that inflict widespread damage. It is the OFT's job to drive these from the market. The effectiveness of the consumer credit licensing system has been criticised, however, for example, by the Public Accounts Committee. We accept and are responding to those criticisms.

First, we are spelling out our policy on what makes a trader unfit to hold a licence. General guidelines have been issued. Sectoral guidelines are soon to follow for businesses such as used car trading and debt collection, where complaints are high. Second, we are strengthening the information base on which licensing decisions are made. Credit providers are on notice. With clearer guidelines and better information we will have more effective enforcement.

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Promoting fair and secure trading

Small print traps and other unfair contract terms can cause consumer harm on a wide front – from air travel to the kitchen sink, literally. Again we are spelling out OFT policy in clear guidelines. And we are taking firm action, backed by absolute readiness to fight unfair contract terms in court if that is needed to get the right result. Our powers against unfair contract terms, which we share with other bodies, have demonstrated their practical value. We will be using them more.

And we will not hesitate to use new powers, such as those under the distance selling regulations that protect shoppers buying from home, whether by mail order, phone or the internet. As with ecommerce initiatives such as Trust UK, the aim is to make home shopping robust and free from abuse, so that consumers can trade confidently with secure rights.

Along with others, we will shortly have an important addition to our consumer powers – Stop Now Orders under the Injunctions Directive. These will speed up and sharpen enforcement for a range of consumer protection measures, and they will allow cross-border enforcement in Europe.



These important new powers stem from European directives. So is there still a need to reform UK consumer enforcement law? Yes there is.

Combatting rogue traders remains complex and slow. Local authority trading standards enforcement is good in places but not everywhere. The basis on which the OFT can support good trading through codes of practice needs strengthening. These are key areas that require reform, and also the resources to go with it.

But we must act now where we can. So, for example, the OFT has launched a new initiative to encourage codes of practice that meet rigorous criteria. We are consulting on these, and on the sectors where we can make the most difference for consumers.

Cartels and market power

Competition is at the heart of consumer protection. There is no clearer abuse of competition and consumers than cartels, where firms enrich themselves by agreeing to give their customers a bad deal by rigging markets against them. Here the OFT does have important new powers – of investigation, enforcement and punishment – under the Competition Act, which came fully into force last March. Dawn raids and encouraging whistle-blowing are now an established part of UK competition enforcement.

The new Act prohibits anti-competitive agreements and abuse of dominant market positions. A large body of casework is in progress. So far we have used the new powers to investigate around 40 cases where it is reasonable to suspect breaches of the prohibitions. Over half are still under investigation. The others were dismissed or resolved informally. A clearance decision has been issued for rules to improve insurance standards and a block exemption made, subject to conditions, for public transport travelcards and through tickets. Payment systems – where the OFT is to be given a much wider regulatory role – are under scrutiny. The action of record companies in relation to CD

imports is being investigated. And several cases examining possible abuse of dominance are moving towards decision. One of these involves pay-TV.

Mergers

The OFT advises the Secretary of State which mergers should be referred for detailed examination to the Competition Commission. His policy is to accept OFT advice in all but exceptional circumstances, and the Government plans to legislate to remove ministers from decision-making. I recommend referral to the Competition Commission when a merger might cause competition concerns (in ways that, instead, cannot readily be dealt with by undertakings by the parties). OFT advice on leading cases is now published.

When the Competition Commission finds that a merger is against the public interest, the OFT advises the Secretary of State on remedies and implements them. The same happens after monopoly inquiries, like that on supermarkets, which was referred to the Competition Commission by my predecessor John Bridgeman in 1999. The OFT has recently been negotiating a code to govern relationships between the major supermarkets and their suppliers.

Restrictions on competition

The Competition Act is a major advance. But the pro-competition – and hence pro-consumer – agenda can and should go further.

Our recent report on competition in the professions illustrates a variety of restrictions on competition in legal, accountancy and architectural services. We look to the professions to remove some restrictions themselves. The OFT can – and where appropriate will – use its powers to address some, but where restrictions stem from statute, it is for Government to decide on the way ahead.

While competition laws address private sector behaviour that could be anti-competitive, the OFT is being given a new extended role to examine and report to ministers on restrictions on competition arising from existing and proposed laws and regulations. This illustrates how the OFT's pro-competitive role is becoming wider as well as more effective.

WORKING WITH OTHERS

The OFT has a leading role in competition and consumer powers, but no monopoly. We can be effective only by working with others.

This is illustrated nowhere more strongly than at local level. The OFT, like the UK consumer, depends crucially on trading standards officers for action and for information to make markets work better. We must give local trading standards clear leadership – for example, on criteria to apply when enforcing consumer legislation – and concrete results in terms of timely enforcement action ourselves.

The trading standards service is among those that now share powers with the OFT to apply measures such as the regulations on unfair terms in consumer contracts. So do the sectoral regulators – who also have concurrent powers under competition legislation – and the Consumers' Association.

The pro-consumer cartel, as I think of it, also includes the National Consumer Council, National Association of Citizens' Advice Bureaux, the Advertising Standards Authority, local authorities, the Consumers' Association and many other organisations on whom our effectiveness depends.



And then there is the international sphere. As commerce becomes ever more international, so must competition and consumer policy enforcement. The key to this is internationalisation without centralisation. In other words, more and better working together. This is the theme of the proposals to modernise the implementation of European competition law, of moves towards a global competition forum, and of international concordats on consumer protection. Informally, too, networks of international cooperation are becoming ever stronger.

CHANGE AT THE OFT

The OFT itself is in a process of transformation. No organisation can be properly effective unless it continually invests, in ways that are sharply results-oriented, in people and technology. Ours is largely an information business, and the OFT's principal assets are undoubtedly its people.

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There are other imperatives too. The OFT's competition powers – and hence our competition work – has been transformed by the arrival of the new Act. Parallel reform of UK consumer legislation is awaited, but the pace of change in consumer powers is anyway considerable. And new responsibilities are coming – for example in relation to payment systems, and anti-competitive consequences of laws and regulations.

The Government plans to make the OFT into an Authority, with executive responsibility belonging to a

board rather than the individual Director General.

One of the benefits of that change will be to strengthen the external perspectives on our work.

I want to achieve that as soon as possible under the existing structure. To that end, I will shortly be appointing an Advisory Panel for the OFT.

The transformation underway at the OFT is not change for its own sake. It is change to ensure that we do our job better, so that markets throughout the UK economy work better – for consumers.