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**DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

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ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN HUNGARY

(January - December 2002)

This report is submitted by the Hungarian Delegation to the Competition Committee FOR CONSIDERATION at its forthcoming meeting to be held on 14-15 May 2003.

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Brief introduction about the Hungarian market developments

1. The effect of the concentrations of multinational undertakings carried out in 2002 was appreciable on the Hungarian market proving its integration into the world economy. Greater changes characterised especially, as worldwide, the markets, which are *capital-intensive and have high entry barriers*, i.e. the R&D focused *car and pharmaceutical* and the *oil and oil-derivative* markets. In the *pharmaceutical industry* competition remained sharp and the concentration process on the wholesale level also continued. While there were deficiencies in the regulatory background, the entry of several new commercial undertakings was observed on the market of *electricity*. The *market of construction industry* could still be characterised as a supply-oriented market due to the great number of suppliers and fierce competition. There were no significant changes in the *food industry*, the number of competitors on the *chicken and meat market* had not changed for years. There was a change in the ownership of some of the undertakings of the *vegetable oil and sugar* market. The volume of the *retailing* sector changed significantly with an increase of more than 10 per cent measured on constant price level.

2. The effect of the decline on the world market was appreciable in the *infocommunication sector* as well. The structure of the *mobile phone market* was still oligopolistic with three digital and one analogous service providers – which latter was (and still is) losing its market importance continuously. The *market of Internet access* was characterised by the separation of retailing and business segments. The intensity of competition in these segments depended on the system of ownership of and the access to the transmission network. Unfortunately the number of retail Internet users did not increase significantly in 2002, it was promising, however, that beside broadband access services the GPRS based Internet access provided by mobile phone operators had become an appreciable factor on the market. In the *cable TV sector* the previously extensive development seemed to slow down and the intensity of network purchasing decreased. Providers present on several distinct areas started to standardise their services.

3. On the *market of financial services* due to the universal banking system banks advanced on the market of *investment services*. Some minor changes appeared on the market of *credit services*. Two commercial banks exited the market, a specialised credit institution merged with another and the concentration process of the cooperative credit institutions also continued. Although the number of competitors increased on the *insurance market*, concentration was still very high, with the five greatest undertaking realising 81 per cent of the total income of the sector.

I. Changes to competition law and policy, proposed or adopted

1. Summary of new legal provisions of the competition law and the related legislation

4. Due to the amendment of the ‘Act on Public Procurement’ the scope of its application was extended to the Hungarian Development Bank and to the undertakings controlled by it. This state owned bank entrusted with the mission to help the development of the national economy was previously exempted from the rules on public procurement.

5. The most important change in the field of competition was the settlement of the constitutional concerns relating to the implementation of the competition rules of the Hungary/EC Europe Agreement. In 1998 the Constitutional Court declared the unconstitutionality of some of the provisions of the Government Decree establishing the implementing rules for the competition-related provisions of the Europe Agreement. As a resolution, new implementing rules serving as a special legal basis in respect of antitrust cases affecting trade between Hungary and the EC were accepted in January 2002.

6. Following changes in the legislation of the European Community the relevant Hungarian block exemption regulations were also amended in the framework of a gradual law-harmonisation process.

2. *Other relevant measures, including new guidelines*

7. In 2002 the Hungarian Office of Economic Competition (Gazdasági Versenyhivatal – in the following: GVH) started the drafting of a series of notices in order to highlight its policy in certain law enforcement areas. The first drafts of documents as follows have been prepared:

- guidelines on fining policy,
- a leniency notice and
- procedural questions related to merger cases.

The finalisation of these planned notices can be expected in 2003.

3. *Government proposals for new legislation*

8. The liberalisation process continued in the sector of energy last year, and as a result the draft of a new Gas Act was elaborated. The opening of the gas market planned for 2004 has not had any impact on market structure so far. As regards the market of electricity, the elaboration of the implementing decrees of the new Electricity Act of 2001 went on too slowly. That delay not only significantly hindered the preparation of the actual or potential actors to market liberalisation starting on January 2003, but it also helped some incumbent actors to keep their strong market positions.

9. Some professional interest representations argue that as a result of the ongoing concentration in large-scale retail trade of recent years, the big supermarket chains gained such an extent of buyer power vis-à-vis their suppliers – mainly food processing undertakings – and other retail companies that these latter have become to a large extent defenceless. Therefore they urge the regulation of large-scale retail trade. Usually two solutions are proposed: the prohibition of sale below costs and the introduction of certain restrictions regarding contractual practices. The GVH has already examined this question at previous legislation initiatives. However, based on relevant international literature and experiences it decided not to back such legislation. When the issue came up again, the GVH assigned an independent market research company to conduct a survey in this field. The research showed that buyer power was not significant and apart from some striking cases the suppliers were also satisfied with their relationship to the large-scale traders. Taking into account the empirical survey and international experiences, the GVH still firmly opposes the prohibition of sale below costs, which prohibition is deemed to constitute a real danger to competition.

II. Enforcement of competition law and policy

1. Actions against anticompetitive practices, including restrictive agreements and abuses of dominant positions

a) Summary of the GVH activities

10. In 2002 the GVH conducted 174 competition supervision proceedings, out of which 169 ended with a decision of the Competition Council. These proceedings concerned 52 consumer fraud and 117 antitrust cases. The trend of the previous years – slightly decreasing number of consumer fraud cases compared to the increasing share of antitrust cases – continued. Parallel to the slowdown in economic growth, the weight of merger cases within antitrust cases decreased to some extent, while the weight of abuse cases increased and that of anticompetitive agreement cases considerably increased. Of the proceedings that ended with a decision of the Competition Council 65 were initiated upon application and 104 ex-officio. The GVH intervened on 64 occasions via competition supervision proceedings (in 36 consumer fraud cases and 28 antitrust cases), which was twice as many by number as in 2001. The significant increase is due to the number of interventions in antitrust cases. The GVH imposed a fine in 40 cases; these fines amounted to HUF 444.2 million (Euro 1.8 million, USD 1.9 million) contrary to the HUF 73.9 million (Euro 0.3 million, USD 0.32 million) total of the fines imposed the year before. Of the decisions imposing a fine 33 became final – these fines amounted to HUF 338.4 million of which HUF 320.9 was actually paid by the undertakings condemned. This significant rise, in comparison to the figures of the year 2001, shows the end of a “transitory period” of 12 years during which the Competition Council imposed smaller fines on the grounds that undertakings have to get familiar with and adjust themselves to the competition law.

11. As regards **anticompetitive agreements**, the Competition Council made 18 decisions, in ten of which it decided to intervene. It happened in three proceedings initiated upon application, that the Competition Council exempted agreements for a limited period of time, in one of its decisions it attached commitments to the exemption. Of the 13 proceedings initiated ex-officio the Competition Council found in seven cases that an infringement had been committed, it imposed fines (amounting to HUF 182,5 million, Euro 0,74 million, USD 0,79 million) in three cases, accepted commitments in one case, withdrew an exempting decision in one case and in two cases it prohibited the continuation of the conduct examined.

	2002
Restrictive agreement cases	18
<i>Horizontals</i>	<i>11</i>
<i>Vertical</i>	<i>6</i>
<i>Mixed</i>	<i>1</i>
<i>Notification</i>	<i>5</i>
<i>Ex officio</i>	<i>13</i>
Interventions of the GVH	10
Fines imposed (million HUF)	182.5

12. As regards **abuse of dominant position cases**, the Competition Council made 36 decisions. In 30 cases the existence of a dominant position could be established, and in 15 cases an abuse was also found, therefore an intervention of the GVH was necessary. In 12 cases the Competition Council found a serious infringement and condemned the undertaking, on 11 occasions it also imposed fines that altogether amounted to HUF 218.5 million (Euro 0.89 million, USD 0.95 million). Similarly to the 2001 experiences, the most common complaints related to the excessive price increase of cable TV providers and their policy of determining the content of their programme packages. The dominant position of the cable TV providers could indeed be established in most cases, although an abuse was demonstrated only on four occasions.

	2002
Dominant position cases	36
Interventions of the GVH	15
Fines imposed (million HUF)	218.5

b) Summary of the court activities

13. In parallel with the increase of the number of GVH interventions, in 2002 the proportion of **cases appealed before courts** increased compared to the figure of 2001. As in the preceding year, around half of the condemning decisions were brought to courts, while only every fourth or fifth decision terminating the proceedings was appealed by the complainant. In 2002 only one of the Competition Council's decisions was overruled by the first instance court and two further by the second instance court. Besides, the fines were reduced on one occasion by the first instance court and on four by the second instance court. Courts are also entitled to annul the Competition Council's decision and order new competition supervision proceedings. During the last year the first instance court passed such an annulling judgement on five occasions. Four of these cases were appealed by the GVH (the outcome is not yet known), and one case was reinitiated. On the other hand, the fact that the legal basis applied by the Competition Council is rarely modified by the court shows that there was a harmony between the courts and the GVH, like in the previous years.

c) Description of significant cases

14. As regards **agreements restricting competition** the "cement cartel" case was the most important. In this case, the Competition Council found an infringement, as the parties to the agreement operated an information system that served for concerting their market conduct. Furthermore, an agreement between the BKV¹ and some wholesale newsagents is to be mentioned, where substantial fines were imposed as well. The Multipoint-Card cooperation between the OTP, MOL and MATÁV² and the buyers' co-operative of CBA retailers' network members also belonged to the most significant agreements which were exempted for a limited period of time.

15. The Competition Council imposed a fine of HUF 150 million (Euro 640.000, USD 684800) in total on Holcim Hungaria Rt. (Holcim), Duna-Dráva Cement Kft. (DDC), BÉCEM Cement és Mészipari

¹ The Budapest Transport Limited

² OTP is the leading Hungarian commercial bank. MOL is the Hungarian Oil and Gas Company and MATÁV is the ex-monopolist telecommunications company.

Rt. (BÉCEM) and Magyar Cementipari Szövetség (MCSz)³ for concluding and implementing an agreement on information exchange and abusing their dominant position. The undertakings concerned established an information exchange system called ‘monthly database’, operated by the MCSz. To assess this information exchange system the Competition Council examined the subject matter of the information exchange, the extent to which that information went into details, the “age” of the information provided as well as the market structure. The information exchange was obviously anticompetitive in so far as it related to future plans and data. However, the provision of data relating to the past may also have been anticompetitive if they were not of historic kind, consequently businessmen with great experience could forecast, based on them, future behaviour of competitors. In certain industries where demand is stable and predictable, even data relating to the past may serve anticompetitive objectives. The Hungarian cement market is highly concentrated and transparent with huge capacity surpluses, furthermore, executive officials know very well each other, as well as the technology, capacity, etc. of the other firms. The regular exchange of confidential data had the object or at least the effect of promoting coordination of market conducts.

16. The OTP Bank Rt. (National Savings Bank), the MOL Rt. (Hungarian Oil Ltd.) and the Matáv Rt. (Hungarian Telephone Ltd.) asked the GVH for a negative clearance relating to the issuance of Multipoint Card by the parties. The three undertakings entered into an agreement to operate a customer fidelity system. The Competition Council found that the Multipoint Card was not merely a system of fidelity cards of the parties’ customers but also a co-branded bankcard with fidelity customer functions for the customers of the OTP. Taking into account the significant market power of the parties the Competition Council found that the Multipoint Card programme would have a rather deleterious effect on competition in the long run. On the one hand for this reason the Competition Council did not give a negative clearance to the agreement. But on the other hand, with the condition that the number of issued Multipoint Cards should not exceed 250.000 an individual exemption was granted to the agreement till 31 December 2004. Furthermore the Council obliged the parties to report on the turnover of the Multipoint Cards and the bankcards in every six months.

17. The BKV Rt. (Budapest Transport Ltd.), the Hírker Rt., the Buvahír Rt. and the Lapker Rt. (publishers of papers) concluded an agreement in December 2000, according to which the BKV would lend to the other parties some of its news-stands located at the most important stops of the public transportation. The Competition Council found that certain stipulations of the agreement were caught by the prohibition of agreements restricting competition. These stipulations were as follows: firstly the co-lessees had the right of first refusal to enter into the lease agreement for each other’s rental property; secondly the lessor undertook that he would not set up new news-stands without the approval of the lessees at the stops where the news-stands in question were standing. The Competition Council prohibited the application of the said stipulations and imposed a fine of HUF 30 million (Euro 122000, USD 130000) on each of the parties.

18. The Competition Council exempted until 9 April 2003 the exclusive distribution agreements made between Philip Morris Magyarország Kft. (PMHU) and seven tobacco wholesalers (hereinafter: the Agreements). PMHU, the second biggest tobacco manufacturer in Hungary and seven tobacco wholesalers operating in Hungary requested on 29 January 2002 the exemption of an exclusive distribution agreement made between themselves, having regard to the provisions of the Hungarian Competition Act and the Block Exemption Decree No 53/1997 of the Government on the exemption from the prohibition on restriction of competition of certain groups of exclusive distribution agreements (hereinafter: the Decree). Through seven similar Agreements, PMHU divided the whole territory of Hungary between the seven wholesalers without overlaps. The wholesalers were granted exclusive right to distribute PMHU’s products

³ Manufacturers of the cement industry and their association

in their respective territories. On 9 April 2002, a new Decree⁴ concerning the block exemption of vertical agreements in full conformity with a new EC regulation⁵ entered into force. Above a market share threshold of 30 per cent, the new Decree did not apply. Therefore, as PMHU's market share was 32 per cent, no exemption could be granted to the Agreements under the new Decree. Nevertheless, the new Decree exempted for a period of one year from its entry into force the agreements exempted by the previous Decree but to which the new Decree did not apply. This was the case for the agreements in question.

19. Of the proceedings initiated for suspected **abuse of dominant position** the decisions relating to TITÁSZ and DÉMÁSZ are to be mentioned, where the two regional public electricity distributors in dominant position set entry barriers to their competitors on the market of modernization of street-lighting. The proceedings pursued against the Diákhitel Központ Rt. because of granting student-credit exclusively through the bank Postabank Rt. was terminated.

20. In September of 2002, the Dél-magyarországi Áramszolgáltató Rt. (hereinafter DÉMÁSZ) was found to have abused its dominant position on the market of services related to street-lighting and was fined HUF 45 million (Euro 183000, USD 196000). DÉMÁSZ is a monopolistic electricity distributor in the region of South Hungary. Although the liberalisation of the Hungarian electricity market have started in January 2003, some related markets, as the market of services related to street lighting (1./ planning, construction and modernisation; 2./ operation; and 3./ maintenance of the street lighting system) was already legally liberalised a few years ago. In this recently opened market the monopolistic electricity distributors are present on their respective territory and occupy a strong position. According to the standpoint of the Competition Council, in the present case it was not necessary to prove that the DÉMÁSZ had a dominant position on the market of street-lighting services. It was sufficient to take into consideration that the undertaking had a significant market share, it had a monopoly on the related market of electricity distribution and that every market participant was dependent on the DÉMÁSZ in many ways.

21. The Competition Council ruled that DÉMÁSZ abused its dominant position by:

- making its consent to the modernization plan of street-lighting dependent not only on technical or security aspects, but also questions relating to the ownership and operation of the system. This behaviour not only caused significant delays to modernisation but also put the other party in an unfairly difficult situation during negotiations,
- giving its consent to the modernisation of the street lighting system only in the event if the old lamps were purchased by the company that intended to take part in the modernization of the street lighting,
- unreasonably hindering the conclusion of contracts necessary for the operation of the modernised street lighting system,
- offering electricity and repairing eventual faults under terms and conditions that were more favourable than its general conditions to municipalities. DÉMÁSZ had been charged with the modernisation of street lighting, and it did not offer these favourable conditions to municipalities, which assigned the same task to other companies. This was a discriminatory behaviour,

⁴ Regulation of the Government no 55/2002. (III. 26.)

⁵ Commission Regulation (EC) No 2790/1999 on the application of Article 81(3) of the Treaty to certain categories of vertical agreements and concerted practices, OJ L 336, 29.12.1999.

- concluding with certain municipalities long-term contracts on providing all the services related to street lighting with penalty provisions that impeded or at least limited the municipalities' possibility to purchase as eligible customer electricity for street-lighting from other distributors after the liberalisation.

22. Another case raised similar questions and was dealt with by the GVH in parallel with the DÉMÁSZ case and the decision was taken on the same day. In that case, another regional electricity distributor, the Tiszántúli Áramszolgáltató Rt. (TITÁSZ) was found to have similarly abused its dominant position and was fined HUF 65 million (Euro 265000, USD 283000).

23. Based on a statutory measure a special student loan system was introduced in Hungary. The organizing institution of this loan programme was the Diákhitel Központ Rt. (DHK – Student Loan Center). The loan was accessible only through one of the Hungarian banks, namely Postabank. The question, which arose in this particular case, was whether the fact that the loan was accessible only through Postabank constituted an abuse of dominant position. After having given special attention to the legal background of the programme the Competition Council took the position that the service offered by the DHK could not be regarded as a market product. In the view of the Competition Council the relevant product market was the market of loans for students. The disbursement itself was not a separate market as Postabank held a merely assistant position and the loan in fact was marketed by DHK. Furthermore, the Competition Council noted that the DHK was not an "undertaking" for three reasons: firstly it was established for the fulfilment of a specific public utility goal, secondly it operated under governmental regulation and surveillance, and thirdly it had rights similar to those of the public authorities. Therefore, the possible competition lessening or distorting effect of the disbursement on the market of keeping bank accounts was not investigated by the Competition Council. All in all, it was a fact that the DHK – as a state owned company – did not have the power to decide about the opening of accounts at Postabank. Accordingly the Competition Council found the case was not one to be assessed under the rules of the competition law. Hence, it terminated the proceedings.

24. The Competition Council found that Gyertyaláng Kegyeleti Szolgálat Temetkezési Kft (Candlelight, hereinafter Gyertyaláng) has abused its dominant position by setting excessively high prices for the funeral services in the cemetery of Ócsa, therefore it fined Gyertyaláng HUF 1 million (Euro 4000, USD 4350). The Act on cemeteries and funerals states that cemeteries may be owned either by municipalities or churches, and that the owner has the obligation to ensure the maintenance and the operation of the cemetery. The operator of the cemetery should provide without discrimination the funeral parlour, storage and refrigerator facilities to other funeral operators. The owners of the cemetery of Ócsa, four churches, concluded an agreement with Gyertyaláng concerning the operation of the funeral parlour and the cemetery itself. According to the agreement Gyertyaláng was entitled to cover its costs by the service fee and was obliged to build a new funeral parlour, which would be transferred to the owners of the cemetery after the expiry of the agreement. Under the agreement, it was not excluded that relatives of the deceased arrange the funeral with the help of other funeral operators. In 2001 there were only 7 occasions that a different funeral operator organized a funeral in Ócsa. Gyertyaláng invoiced altogether around HUF 90000 (Euro 365, USD 390), including HUF 40000 (Euro 160, USD 175) for the use of the funeral parlour, in the case of third party operators, while for the own funeral service it charged a so called complex fee of a considerably lower amount not individualizing different items. During the proceedings Gyertyaláng argued that the HUF 40000 was calculated by the payback period of the investment, which was 7 year long due to the fact that the agreement would expire in 7 years although the amortisation period would justify only 16-17 years. According to the view of the Competition Council Gyertyaláng operated on two markets, which were connected. On the market of cemetery operation as a result of the agreement Gyertyaláng was the only market player, while on the market of funeral services it competed with other funeral operators. Each funeral operator had to turn to Gyertyaláng in order to have access to the facilities of the cemetery if they wanted to be active on the latter market. By abusing its dominant position on the market of cemetery

operation, Gyertyaláng could extend its dominance to the second market. The Competition Council found that Gyertyaláng created without justification disadvantageous market conditions for its competitors.

2. *Mergers and acquisitions*

a) *Summary of the GVH activities*

25. As regards **merger control** 65 final decisions were taken by the Competition Council: in 60 cases the decisions were made upon application of the undertakings concerned and in 5 cases the proceedings were started ex officio by the GVH because of suspected failure of submitting an application for authorisation in due time. In 59 of the 60 cases decided on the merits, an authorisation was granted by the Competition Council, where in two cases the authorisations were subjected to conditions and in one case to obligations, consequently an intervention by the GVH occurred in three cases. (In a further case the proceedings was terminated.) In the ex officio proceedings the suspicion mentioned above was proved in three cases. In one case in which the law relating to undertakings connected to credit institutions was interpreted the first time at all, the GVH refrained from imposing fines. In two other cases, however, fines amounting to HUF 1.6 million (Euro 6500, USD 7000) as a total were imposed. Because of failure to observe the time limit set for submission of the application for authorisation fines were imposed in eight cases in a total of HUF 8.2 million (Euro 33500, USD 35600). The mergers having the most significant influence on the market structure were carried out in 2002 in the energy, cement and pharmaceutical industry and on the telecom market.

	2002
Merger cases	65 ⁶
<i>Horizontal</i>	51
<i>Vertical</i>	4
<i>Mixed</i>	10
<i>Notified</i>	60
<i>Ex officio</i>	5
Authorised	59
Not subject to notification	-
Notification withdrawn	-
Conditional authorisation	3
Fines imposed (million HUF)	8.2

b) *Summary of significant cases*

26. In the Südzucker case, as a result of the acquisition of Financiere Franklin Roosevelt S.A.S. by Raffinerie Tirlémontoise S.A., Südzucker – having controlling rights over the latter – would have acquired a 50 per cent ownership also over Eastern Sugar BV. (99,7 per cent owner of the Hungarian sugar factory Kabai Cukorgyár Rt). However, Südzucker had already had indirect control over another Hungarian sugar firm, Magyar Cukor Rt. (Béghin Say, the third market participant on the Hungarian sugar market controlling three sugar plants, was not concerned by the planned transaction.) In its decision the Competition Council found, that the Hungarian sugar industry was in a tight oligopolistic situation already before the planned transaction would have been carried out. It was stated, that the transaction would have

⁶ For the explanation of the figures see the text above.

created an even tighter structural relationship between Magyar Cukor Rt. and Kabai Cukor Rt, i.e. between two of the three Hungarian market participants. Consequently, the strengthening of the joint dominance of the two remaining market participants might be expected to strengthen the ability of the firms of the duopoly to use their market position by harming the consumers' interest, e.g. by increasing or by maintaining the high level of their prices. So, the Competition Council attached a condition to its authorisation: it was ordered that Südzucker had to sell Eastern Sugar BV to Tate & Lyle Plc, its other 50 per cent owner.

27. In the field of the chemical industry the acquisition by **Bayer AG** of **Aventis Crop Science Holding SA** was cleared by the Competition Council with the precondition that Bayer AG would sell its Metamitron (Goltix) branch within six months of receipt of the decision. This commitment of Bayer was in line with its commitment to the Commission, where the Commission required sale of the whole European branch of Metamitron insecticide business inclusive the Goltix trademark. This eliminated the anticompetitive effects of the strengthening of the dominant position. Bayer AG met the condition.

3. *Consumer fraud*

28. Under the provisions concerning the **prohibition of unfair manipulation of consumer choice** 52 final decisions were made by the Competition Council in 2002. In 36 cases of the 52 an intervention of the GVH was necessary because of the infringement of law and in 17 of these interventions the Competition Council imposed fines in a total of HUF 35 million (Euro 142000, USD 152000). Compared to the previous years the amount of unlawful information and advertisements concerning goods maintaining and/or recuperating human health and claimed to be "panacea" in the fight against serious diseases increased. The infringements of law in the form of providing misleading information by time-share undertakings as well as about campaigns, rebates and competitions of retail chains were present in 2002 too. It is to be noted, however, that the number of infringements of this kind has decreased in the past one-one and a half years and also their gravity has clearly showed a decreasing tendency.

	2002
Consumer fraud cases	52
Interventions of the GVH	36
Cases where fines were imposed	17
Fines imposed (million HUF)	35.0

III. **The role of the competition authority in the formulation and implementation of other policies, e.g. regulatory reform, trade and industrial policies**

1. *Effects of state interventions*

29. Regulatory interventions by the state did not have substantial effects on market processes in 2002. To some extent this was the result of the less intensive regulatory activity, which could be attributed to the fact that there were elections in 2002. The law approximation process went on to make the Hungarian undertakings getting accustomed to the competition and operational conditions existing in the European Union, since all these conditions would prevail after the accession. In 2001 the main elements of the role of the state were determined by the Széchenyi Plan (national venture incentive project). Since for 2002 the resources of this project were exhausted, moreover social measures got priority among the goals

of the new government and the governing political will also changed, the supportive methods influencing directly the investment decisions of undertakings and the preferential treatment for SMEs against large scale businesses lost their importance.

30. An improvement of the competitive conditions can be expected as a result of the planned sale of two important players in the financial sector (FHB Land Credit and Mortgage Bank Ltd. and Postabank Plc. – both will be sold in 2003). There has been a further positive development in this sector, namely replacing the earlier exclusivity granted to Student Loan Center offering loans through the Postabank Plc., from February 2003 this can be done through the accounts of any Hungarian credit institutions.

31. In the telecommunications sector the expiry of the exclusivity clauses in the concession contracts concluded for telecoms services was the most essential change. However, the sometimes too high expectations of the small consumers regarding the market opening proved to be unfounded. Large consumers could benefit from the changes in an indirect way (price decreases, wider choice possibilities) – after all these had some positive effects also for the general public. The results were modest due to the negative consequences of the recession that begun in 2000 and 2001, in addition to this, there were also some failures committed by the legislators and law-enforcers. The regulatory environment was unable to create an appropriate background for a regulatory intervention, which could have been adjusted to market circumstances. In certain cases the regulations were overly rigid, contained inflexible framework and this phenomenon did not allow interventions which could have served the interest of the market taking into account the existing circumstances.

2. *Competition advocacy*

32. During 2002 in the framework of its competition advocacy the GVH gave its opinion to more than 200 submissions and draft bills/regulations. Similarly as in the earlier years also in 2002 the main endeavours of the GVH were to avoid excessive barriers restricting the competitive markets by state interventions and to find the appropriate solutions proportional to the planned regulatory aims (e.g. the regulation of insurance services, and the regulation of law-exhaustion or IPRs, etc.). In respect of sectors which can be characterised by a limited level competition or market failures, the GVH's comments aimed at increasing the success of the justified regulatory interventions and the advocacy of the GVH was directed towards the initiation of or calls for the elaboration of well-prepared professional solutions which could result in efficiency pressure (e.g. agricultural regime, legislation aiming at the liberalisation of the sectors of electric energy, gas, health care services, etc.). The problems of impartial competitive behaviour of the state and municipalities stemming from the Janus face of these institutions (they are public regulatory bodies on the one hand and owners of state properties on the other hand) raise concerns repeatedly. There are also returning debates concerning the setting of service/management fees for organisations having special and exclusive rights (to some extent these debates are about the VAT obligation of these services – sometimes the situations lack the conceptual solution).

33. In 2002 the GVH looked for the possibilities of further developing competition culture, by widening knowledge of the society about competition law. The Office attaches special importance to its activity devoted to the education of and discussions about competition law and policy in universities and on scientific fora. Some of the GVH's staff members held regular competition law courses in universities. Lectures for interested professional groups are organised regularly. Communications and publications by staff members of the GVH on issues of competition policy are quite frequent.

34. The institutionalised co-operation of the GVH has been extended and made more intensive mainly with the regulatory authorities (Hungarian Energy Office, Communications Authority, Communication Arbitration Committee, Hungarian Financial Supervisory Authority), furthermore the GVH keeps regular connection with interest groups of undertakings as well.

35. The preparation for the EU membership continued during the year of 2002. The basic aim of this process is to make the GVH suitable to meet all the conditions and criteria, which are set by the Community institutions to the competition authorities of the Member States. In addition to the preparation for membership the GVH's international relations had two main directions in 2002, namely the co-operation with the US competition authorities and with the competition authorities of the South-Eastern European countries became more intensive. In this latter framework the GVH had the possibility to share its experience gained during the 12 years of its competition law enforcement. The GVH contributed to the work of the OECD Competition Committee and of its working parties. One colleague from the GVH joined the OECD Secretariat for a one-year period on a co-financed basis. From January 2002 on the GVH has participated in the work of the ICN.

IV. Resources of the competition authority

Resources	2002
<i>Annual budget</i>	
million HUF	1.179,6
million USD	5,2
<i>Number of employees</i>	121
lawyers	39
economists	38
other professionals	18
support staff	26
<i>Human resources applied to⁷</i>	
law enforcement	60
advocacy efforts	17

36. In February 2002 the GVH moved to a new building where substantially better working conditions are provided for it. The contact parameters of the GVH are as follows:

Address: H-1054 Budapest, Alkotmány u. 5.
Mailing address: 1245 Budapest 5., PO box 1036, Hungary
Tel.: (36 1) 472 89 00
Fax: (36 1) 472 89 05

V. Competition culture

37. In 2002 the GVH continued to fulfil one of its most important tasks – to provide information to the public about its activity, the development of competition law in Hungary and about theoretical and pragmatic questions of competition policy.

⁷ The separation of responsibilities is rather difficult since some of the staff members active in law enforcement take also part in competition advocacy if e.g. a draft regulation relates to “their” industries. The figures of the chart are rough calculations based on the workload.

<i>The GVH's role in the development of competition culture</i>		
	Number of GVH officials who regularly give lectures in higher education	6
	Number of interviews given to different means of media	13
	Number of professional publications	12
	Lectures for university students	9
	Lectures for professionals	32
	Number of theses by students in competition matters	7
<i>Articles in newspapers about the GVH in 2002</i>		
	Articles, news in nation-wide newspapers	64
	Articles, news in professional/economic newspapers	56
	Articles about the previous year's annual report	4
	Articles about the amendment of the competition law	-

38. The GVH puts great emphasis on communicating its activity to the public. To this end the decisions of the Competition Council are made public on the website of the GVH: www.gvh.hu. This homepage was substantially renewed and restructured in 2001. The new site contains more information and a substantial part of the Hungarian version can also be found in English.