

# **Rules & Regulations that Limit the Number of Suppliers**

**2<sup>nd</sup> Session, Topic 1**

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## **Limiting the number of suppliers**

➤ **Laws, or proposed laws, can restrict entry  
to a market for goods and services –**

➤ ***Directly***

➤ ***Indirectly***

## Direct Restrictions on Entry – 1

- **Granting exclusive rights for a supplier to provide goods or services**
  - Arises most often with natural monopolies such as rail lines and stations, electricity transmission systems, gas & water pipelines, and other large-scale infrastructure
  - It would be wasteful and inefficient to duplicate these, so often only one supplier
  - But they need careful regulation !!!

## Direct Restrictions on Entry – 2

- **Establishing a licence-authorisation-permit process as a requirement of operation**
- While sometimes necessary for consumer protection reasons, such systems can protect existing businesses and harm consumers
- Examples from Ireland –
  - Taxis, Pubs (danger of inflated licence values, secondary market developing)

## Indirect Restrictions on Entry – 1


- **Limiting the ability of some types of suppliers to provide a good or service also restricts entry.**
- Harmful because they restrict the no. of suppliers, reduce competition and usually result in higher prices.
- Examples –
  - Independent Conveyancers in Ireland (due to Solicitors' monopoly on property transactions)
  - Dental Hygienists in Ireland (cannot operate alone)
  - Coffin-makers in (US) Louisiana Case (not allowed to sell caskets alone, must provide full range of funeral services)

## Indirect Restrictions on Entry – 2

- **Significantly raise the cost of entry or exit by a supplier**
- Harmful because they discourage potential entrants, thereby reducing competition
- Examples -
  - Unnecessarily high education requirements
  - Monopoly education providers (Pharmacy in Ireland)
  - Dentists in Ireland must be individuals, not corporate bodies


## Indirect Restrictions on Entry – 3

- **Many other kinds of indirect restrictions, eg**
  - Business location restrictions (pharmacists)
  - Only allowing a limited number of State contracts  
eg General Practitioners (doctors)



# LIMITING THE NUMBER AND RANGE OF SUPPLIERS

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## Competition Assessment Checklist

### Initial Screening: Checklist Question #1

- Does the rule or regulation **limit the number or range of suppliers?**
- This could arise, for example, if a regulation
  1. Grants exclusive rights for a company to supply goods or services
  2. Establishes a license, permit or authorization process as a requirement for operation
  3. Limits the ability of some suppliers to provide a good or service
  4. Significantly raises cost of entry or exit by a supplier
  5. Creates a geographic barrier to the ability of companies to supply goods or services, invest capital or supply labor

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## Competition Assessment Checklist

### Initial Screening: Checklist Question #1 – 1

- **Grants exclusive rights for a company to supply goods or services**
- For example:
  - Markets for solid waste disposal – a common mechanism for waste collection in local markets is by a private firm which has been granted exclusive rights to collect the waste
  - Historically, electricity, natural gas, telecommunications, water, postal services and railroads, for example, were granted legal monopoly status – or exclusive rights – to provide the services
- Leads to lower innovation in the long run, retards development of markets, barrier to entry

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## Competition Assessment Checklist

### Initial Screening: Checklist Question #1 – 2

- **Establishes a license, permit or authorization process as a requirement for operation**
- For example:
  - Taxi services

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## Competition Assessment Checklist

Initial Screening: Checklist Question #1 – 3

- **Limits the ability of some suppliers to provide a good or service**
- For example
  - Quotas on business licenses
  - Restrictions on shop opening hours
- Affects competition, lowers incentives to innovate in provision of service or product

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## Competition Assessment Checklist

Initial Screening: Checklist Question #1 – 4

- **Significantly raises cost of entry or exit by a supplier**
- For example
  - Bureaucratic barriers and costs to start new businesses vary significantly across countries
  - Lawyers, accountants, architects, engineers and pharmacists, etc, are often subject to regulations such as fee scales

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## Competition Assessment Checklist

Initial Screening: Checklist Question #1 – 5

- **Creates a geographic barrier to the ability of companies to supply goods or services, invest capital or supply labour**
- For example
  - Restrictions on inter-state (or inter-region) commerce
  - Restrictions on professionals to practice across states or regions
- Diminishes competitive forces

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## Benefits of Competition

Selected Examples – Entry in Airline Markets

- Entry and competition in the Australia and New Zealand airline market. Entry of Virgin Blue resulted in
  - Breakup of a tight duopoly
  - Significantly lower prices
  - Purchase of new planes by Qantas and Air New Zealand to replace older planes and offer better service
  - Incumbent carriers offered more flights and new destinations to better serve travelers
  - Air New Zealand Air hired 90 new concierge flight attendants to provide additional and better services – more courteous service!
  - With rising fuel costs, while Qantas raised prices, Air New Zealand kept their prices the same to better compete with Virgin

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## Benefits of Competition

### Selected Examples – Privatization of Ports

- Liberalization and promotion of competition between shipping ports in Argentina resulted in
  - The port of Buenos Aires, its six terminals being given in concessions to five different private firms
  - Foreign firms participating in the construction of new ports and terminals
  - Increase in cargo handling by 50% between 1990 and 1995
  - Increase in labour productivity by 275%
  - Argentinean ports becoming the cheapest ports in Latin America