

SOUND
COMPETITION
FOR
INCREASED
WELFARE.



2005 case highlights



CIVIL AVIATION

■ ■ The Competition Authority has facilitated healthy competition in the domestic air travel market. The results include more flights and 20 percent lower fares.



THE DAIRY MARKET

■ ■ The Norwegian Competition Authority acted swiftly after it came to light in December 2004 that Synnøve Finden – a relatively new challenger to the dominant dairy producer, Tine – had been locked out by the nationwide supermarket chain, Rema 1000. The Authority initiated an investigation and instituted mandatory, long-term reporting of distribution deals between major grocery chains and suppliers. As a result of the Authority's intervention, competition has increased, prices are lower, and the product range available to consumers has improved.



THE FERRY MARKET

■ ■ The Competition Authority blocked ferry operator Color Line's partial acquisition of Fjord Line via a 2002 temporary prohibition. The acquisition would have hindered Fjord Line's chartering a new vessel, thus weakening competition in the ferry market along the southwestern coast of Norway. In 2005, concerns about capacity expansion on ferry routes between southwestern Norway and Denmark resulted in intensification of the Authority's ferry-market surveillance.



COMPETITION AUTHORITY RELOCATION

■ ■ Relocation of the Norwegian Competition Authority from Oslo to Bergen is proceeding according to schedule. By year-end 2006, the Authority's new headquarters will be fully staffed, in line with goals established by Stortinget, the Norwegian Parliament.



BANKING

■ ■ Lower fees for public registration of loans make it less costly for consumers to switch lenders. This change had long been advocated by the Competition Authority.



PENSION INSURANCE

■ ■ Kredittilsynet, the Financial Supervisory Authority of Norway, proposed a requirement that all life insurance companies offer separate management of pension assets and the sale of death and disability insurances. The issue was originally spotlighted by the Norwegian Competition Authority. If adopted, the proposal will lead to greater competition.



PUBLISHING

■ ■ In April 2005, the Norwegian government adopted provisions that eliminated some restrictive factors in the selling and pricing regime for books. For example, all sales channels are now allowed to give discounts on books; even more extensive reform has long been advocated by the Competition Authority.

Sound competition for the welfare of society

■ ■ In 2005, the Norwegian Competition Authority worked on several major issues, particularly in the areas of transportation, groceries, and book publishing and distribution.

Active enforcement of Norway's Competition Act contributed to a continuation of historically low inflation and interest rates in Norway. This economic state of affairs has allowed for lower unemployment accompanied by only modest price increases. Price growth continues to be low due to lower prices on imported consumer goods, greater competition in several markets, and a period of low wage increases. Low inflation means prices are more accurate carriers of information on value. Limited inflation also helps business and industry and consumers to make more socioeconomically correct decisions when it comes to choosing investments, choosing between savings and consumption, and choosing between work and leisure.

Because sound competition may result in less profit for some companies and their owners, we must address the temptation to obstruct and/or restrict competition. Efficient use of society's resources requires cohesive legislation and regulations that place reasonable limits on businesses and provide for economically beneficial structuring within industries. Such rules help to ensure that consumers benefit, which benefits society as a whole. A case in point: lower passenger air fares have directly affected the travel budgets of individual consumers, business, industry, and public administration. In the public sector, lower transportation costs allow resources to be spent in other areas, such as social welfare programs. Competition helps promote societal welfare.

Competition is not an end in and of itself. Rather, it is an important means to improving utilization of society's resources, which should be encouraged in certain areas. Efficient use of resources is, of course, necessary, in order to ensure adequate resources for current and future generations. For example, some businesses currently protected from international competition are subcontractors to businesses that are exposed to such competition. Weak or nonexistent competition among subcontractors may result in weaker competitiveness in the international market for businesses that do compete, because their costs are too high. Competition is also an important factor in the development of technology and know-how. A pro-competition policy supports current economic policies and contributes to the continued development of overall welfare.



Knut Eggum Johansen,
Director General of the Norwegian Competition Authority

Although Norway's Competition Act is enforced by the Norwegian Competition Authority, responsibility for compliance with the rules rests with individual companies. Forceful responses to illegal cartel agreements and abuses of market dominance level the playing field. Competing in a manner that is detrimental to competition or consumers can also result in fines and/or criminal prosecution. Protecting and further developing sound competition should be viewed as advancing the best interests of both businesses and consumers.

In 2006, the relocation of the Competition Authority from Oslo to Norway's second largest city, Bergen, will be completed. The relocation has required a great deal of resources thus far.

Bergen/Oslo, March 2006
Knut Eggum Johansen
Director General
Norwegian Competition Authority

This is the Norwegian Competition Authority

The Norwegian Competition Authority's vision: Healthy competition for the welfare of all.

The Norwegian Competition Authority is working to promote healthy competition, for the benefit of consumers, business, and industry. The Norwegian Competition Authority's principal task is to enforce Norway's Competition Act. The Authority has offices in Bergen and Oslo; by year-end 2006, all its activities will have been relocated to Bergen.

Norway's Ministry of Government Administration and Reform establishes the framework for the Norwegian Competition Authority's responsibilities, supervises its operations, and serves as the appeals body for decisions and rulings made by the Competition Authority, except in the case of monetary fines for violations. Each year, the Ministry prepares a document that sets the framework for the activities of the Authority.

THE RESPONSIBILITIES OF THE COMPETITION AUTHORITY

- Monitor adherence by business and industry to the Competition Act's prohibitions against competition-restricting cooperation and abuse of dominant market position.
- Ensure that mergers, acquisitions, and other business combinations do not significantly restrict competition.
- Identify laws, rules, and governmental measures that have undesirable effects on competition.

The Norwegian Competition Authority can fine businesses for Competition Act violations.

Norway's current Competition Act took effect 1 May 2004.

Organization

■ ■ SUPPORT STAFF

Coordination and quality assurance for legal, economic, financial, and international activities, and investigations.

■ ■ PUBLIC RELATIONS STAFF

Information and communications within the Competition Authority and with government, media, businesses, and other interested parties.

■ ■ KOFA SECRETARIAT

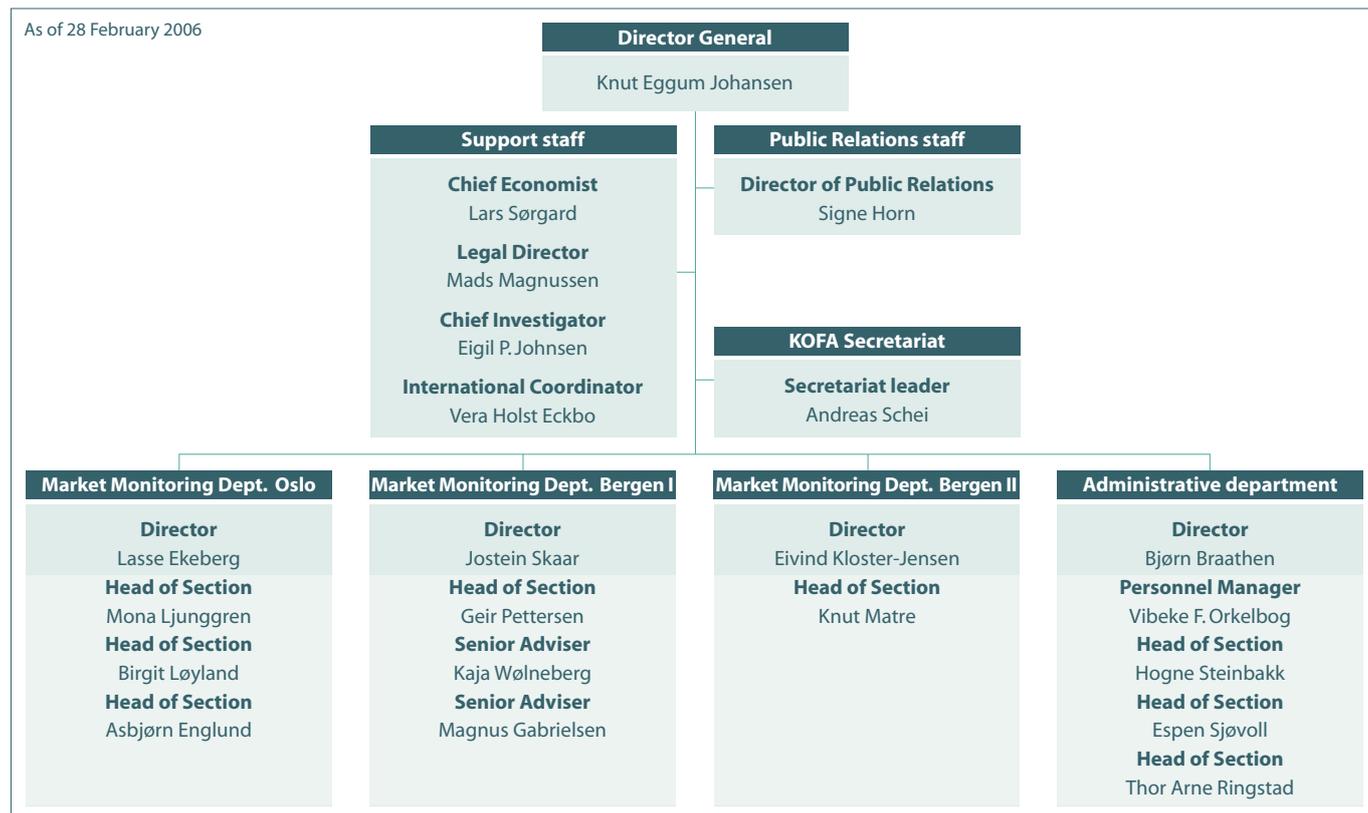
The KOFA Secretariat is the secretariat of the Public Procurement Complaint Board.

■ ■ MARKET MONITORING DEPARTMENTS

Market monitoring, market assessments, and implementation of measures that eliminate competition restrictions. Extensive processing of cases and clarification of issues.

■ ■ ADMINISTRATION DEPARTMENT

Personnel, accounting, documentation, information technology, and administrative services.



2005: The year's highlights

JANUARY

■ ■ Several government agencies meet with the Norwegian Competition Authority regarding today's competition for super-market shelf space.

MAY

■ ■ The EEA Competition Act of 2004 is adopted by Norway, effective 19 May 2005.

SEPTEMBER

■ ■ The Competition Authority notifies the dairy producer Tine AB that it is considering fining the company as much as NOK 45 million for Competition Act violations.

FEBRUARY

■ ■ Two flour mills, Cerealia and Norges-møllene, are fined a total of NOK 6.5 million for illegal cooperation on pricing by the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim).

■ ■ The Norwegian Competition Authority's lawsuit against Norway's four largest transportation companies for illegal cooperation on pricing ends in a court settlement. Under the settlement, the companies agree to pay fines totaling more than NOK 3.7 million.

JUNE

■ ■ The Competition Authority fines SAS Braathens NOK 20 million for abusing the airline's dominant position on the Oslo-Haugesund route.

■ ■ The Competition Authority intervenes against the merger of the two US companies National Oilwell, Inc. and Varco International, Inc. The Authority demands the sale of the former National Oilwell's Norwegian subsidiaries engaging in sales and maintenance of drilling equipment.

OCTOBER

■ ■ The Competition Authority decides not to intervene against TeliaSonera AB's acquisition of Norway's Vollvik Gruppen AS and its two smaller-sized mobile phone operators.

MARCH

■ ■ The Norwegian Competition Authority accepts Telenor's acquisition of Tiscali AS on the condition that Telenor sell Tiscali's dial-up Internet customer base.

JULY

■ ■ The Competition Authority notifies the airline SAS Braathens that it is considering levying a fine of up to NOK 30 million for abusing its dominant position on the Oslo-Ålesund route.

■ ■ A report on the so-called liberal professions expresses concerns about insufficient competition among and high prices for the services of real estate brokers, lawyers, and dentists, among others.

NOVEMBER

■ ■ For the first time since the new Competition Act went into force, the Competition Authority issues fines to companies that have failed to submit notifications regarding mergers or acquisitions.

■ ■ The Ministry of Modernization* reverses the Competition Authority's decision and approves the merger of Varco International and National Oilwell.

■ ■ On 25 November, Norway's government decides that Statkraft does not have to sell Trondheim Energiverk.

APRIL

■ ■ A committee of researchers appointed by the competition authorities proposes limiting publicly held companies' access to compete with privately held companies in business areas for which there are already functioning markets.

■ ■ The King in council adopts regulations that exempt book publishers and distributors from aspects of the prohibition against cooperation restricting competition.

AUGUST

■ ■ The Ministry of Modernization* adopts new regulations governing the determination of fines levied against businesses that violate prohibitions set forth in the Competition Act.

DECEMBER

■ ■ The Competition Authority orders six retail food chains to submit their annual agreements with 25 suppliers. The purpose is to identify any attempt to exclude potential competing suppliers.

* As of 2006: The Ministry of Government Administration and Reform

TRANSPORTATION AND AVIATION

Greater airline competition has lowered air fares while increasing the number of flights and destinations.

INCREASED COMPETITION PAYS

In 2002, the Norwegian Competition Authority banned frequent-flyer bonus points on domestic air travel. As a result, there have been major changes in the Norwegian aviation market. Prices on domestic air travel have dropped significantly.

■ ■ The market entry of Norwegian Air Shuttle led its competitor SAS Braathens to lower ticket prices and begin offering one-way fares on its routes as of 1 September 2005.

BAN ON BONUS POINTS STRENGTHENS COMPETITION

In 1994, regulations governing Norwegian aviation were eased, but the ensuing years were characterized by “destructive” competition. Color Air, a start-up company, withdrew from the market in 1999, after suffering a NOK 400 million loss, and Braathens, a decades-old competitor teetered on the verge of bankruptcy in 2001 and was taken over by SAS the following year.

Civil aviation took a different turn in 2002, following the Norwegian Competition Authority’s ban on awarding loyalty-program bonus points

for passenger travel on domestic routes in Norway. The prohibition helped open up the market to new participants, and was a factor behind the market entry of Norwegian Air Shuttle.

MORE INTERNATIONAL FLIGHTS FROM MORE AIRPORTS

Stronger competition resulted in greater freedom of choice for Norwegian passengers for domestic as well as international destinations. Today, Norwegian Air Shuttle competes with SAS Braathens on several domestic and international routes, which benefits passengers across Norway. SAS Braathens, a subsidiary of the SAS Group, has been forced to implement significant cost-cutting to meet the competition.

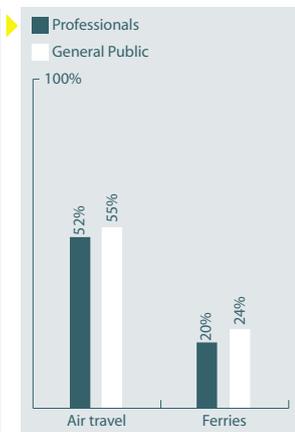
For passengers, greater competition has resulted in lower fares. There is reason to believe that the annual gains for airplane travelers on domestic routes and international routes to and from Norway may exceed NOK 2 billion.

MORE PASSENGERS ON INTERNATIONAL FLIGHTS

The number of travelers on international flights has risen by 25 percent in the past two years, and scheduled flights have clearly increased more than charter flights. This development may be explained by greater market competition, and a resulting increase in the number of direct international flights

ASSESSING THE COMPETITION AUTHORITY’S IMPACT:

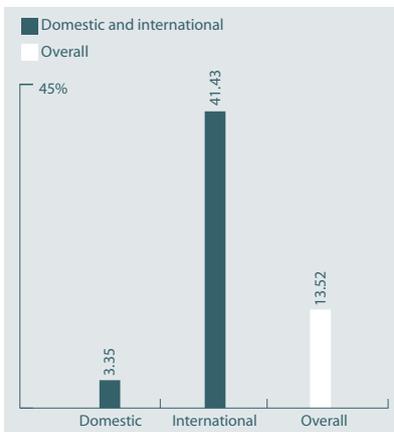
The bar chart (immediate right) shows the percentage of survey respondents who reported that “to a great extent” or “to a very great extent” they perceived significant competition in Norway’s air travel and ferry markets. The survey, conducted in early 2006 among the public and those using the Competition Authority’s services, is discussed on page 17.



PERCEIVED COMPETITION

To what extent do you experience significant competition in air travel and ferry markets?

Source: MMI



AIRLINE PASSENGER GROWTH

Percentage growth in the number of airline passenger, 1997 through 2005.

Source: Avinor

Important cases in 2005

COLOR LINE INSTRUCTED TO SUBMIT DOCUMENTATION

■ ■ In October 2005, the Norwegian Competition Authority ordered the Norwegian ferry operator Color Line to submit accounting figures and traffic statistics covering all its ferry routes, including data on expenses not allocated to specific routes. The order was issued because the Authority wanted to monitor competitive conditions on ferry connections between southwestern Norway and Denmark.



EUROPEAN ATTENTION TO BONUS PROGRAMS

■ ■ In October 2005, the joint forum European Competition Authorities (ECA) issued a report on airlines' bonus programs, rebate schedules, and agreements with travel agencies. The report concludes that the airlines' use of bonus programs may constitute an abuse of market dominance and thus a violation of competition legislation. However, individual assessments of each case must be made. The Norwegian Competition Authority participated in preparation of the report.

In August 2005, Scandinavian competition authorities decided not to intervene against SAS's bonus programs on inter-Scandinavian routes. The authorities undertook an evaluation of the issue based on a joint complaint filed by the airlines Norwegian Air Shuttle and Sterling.



SAS BRAATHENS FINED FOR UNDER-PRICING OSLO-HAUGESUND

■ ■ In June 2005, the Competition Authority levied a NOK 20 million fine against SAS Braathens for abuse of its market dominance on the route between the Norwegian cities of Oslo and Haugesund. The Authority determined that SAS Braathens used below-cost pricing to squeeze its smaller competitor Coast Air out of the route. Norway's Competition Act and case law deem under-pricing an illegal abuse of market dominance.

In July 2005, the Competition Authority notified SAS Braathens that it was also considering imposing fines for a similar violation on the company's Oslo-Ålesund route. On the eleven other routes investigated, the Authority did not

find any conditions that constituted violations of Norway's Competition Act.

SAS Braathens has asked the courts to overturn the Competition Authority's fine for predatory pricing on its Oslo-Haugesund route. Regarding Competition Authority intervention in alleged under-pricing on the Oslo-Ålesund route, SAS Braathens has submitted its comments, and the Competition Authority will review the issue again before making a final determination.

FINANCIAL SERVICES

Many of Norway's financial markets are dominated by a few large companies. Moreover it is difficult for new participants to gain entry into some of these markets.

LARGE PLAYERS DOMINATE

Although Norway has many banks and insurance companies, the country's financial markets are dominated by the largest players.

■ ■ The financial markets comprise, among others, banking, fund and asset management, and casualty and life insurance. In several markets, acquisitions and mergers in recent years have led to fewer participants holding larger market shares. Also, various factors make it difficult for new participants to gain entry into some of these markets.

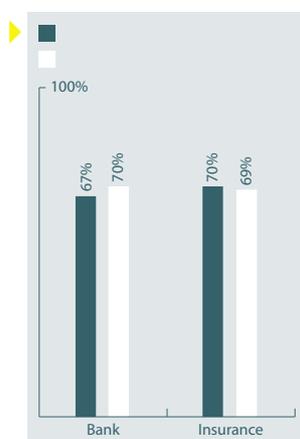
The Norwegian banking market comprises 127 savings banks and 21 commercial banks, of which some 30 percent are owned by non-Norwegian banks. Despite the large number of banks, the Norwegian banking market is relatively concentrated. The four largest banks together have 74 percent of the market, measured in terms of total assets. The largest participant, DnB NOR, has a market share of nearly 40 percent.

LOOKING INTO THE NON-LIFE MARKET

The Ministry of Government Administration and Reform has asked the Norwegian Competition Authority to assess competition in the market for non-life insurance. The Ministry's request stems from strong profits reported by casualty insurance companies in the past couple of years.

NORDIC BANKING INDUSTRY SURVEY

The Nordic competition authorities are writing a joint report on the Nordic retail banking markets. The report, due in August 2006, will focus on access to payment services and customer mobility.



PERCEIVED COMPETITION
To what extent do you experience significant competition in banking and insurance markets?
Source: MMI

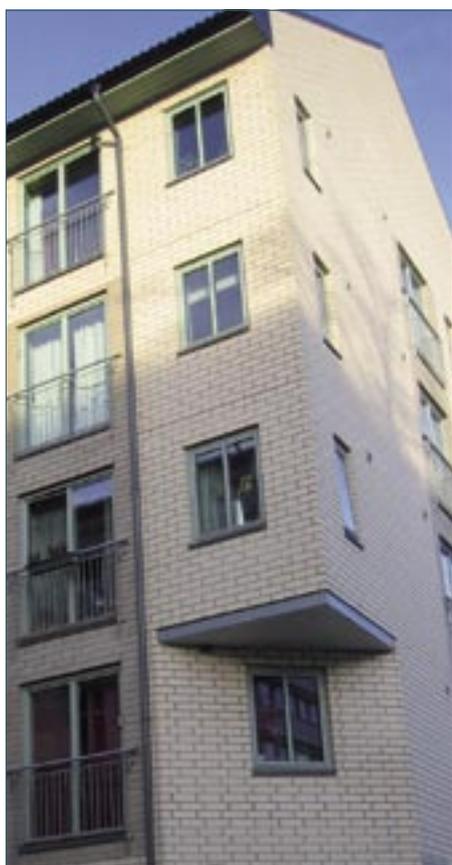
INSURANCE DOMINATED BY A FEW

The Norwegian insurance market comprises six life insurance companies, 47 non-life insurance companies, and 127 pension funds. The two largest participants have more than 80 percent of the life-insurance market; the four largest non-life companies combined have more than 90 percent of the casualty insurance market. For private, group pension plans, the two companies Vital and Storebrand hold a market share of 90 percent.

NICHE BANKS HELP COMPETITION

In recent years, there have been several banking industry mergers and acquisitions, the most significant being the 2003 merger between DnB and Gjensidige NOR. It is noteworthy, however, that during this same period several niche banks have been established; their market entry has had a positive effect on competition.

Important cases in 2005



LOWER FEES MAKE IT CHEAPER TO SWITCH BANKS

■ ■ On 1 January 2006, the registration fee for refinancing of loans was lowered from NOK 2,112 to NOK 215. Lower fees make it cheaper to switch loans to another bank offering more favorable terms. The reduced fee applies to a refinanced loan that features the same principal, the same mortgagee, and a continuation of the same mortgaged asset as loan security. The Competition Authority has, on several occasions, requested that the aforementioned loan registration fees be reduced, so as to promote greater competition in the market for home mortgages.

NEW RULES FACILITATE GREATER COMPETITION ON RETIREMENT PLANS

■ ■ Well-functioning competition is important to ensuring good yields on the pension assets of today's workforce and to maintaining high levels of performance. Changes to Norwegian regulations, initially requested by the Competition Authority, went into effect as of January 2006. These changes will allow more companies to provide retirement plan asset management.



INTERVENTION AGAINST BBS'S ACQUISITION OF ZEBSIGN

■ ■ In June 2005, the Norwegian Competition Authority approved the acquisition of ZebSign AS by Bankenes Betalingssentral AS (BBS), provided certain terms and conditions were met. ZebSign provides PKI (Public Key Infrastructure) services for secure electronic identification. BBS is an IT company owned by Norwegian banks. In light of the potential for new market entries and, in the somewhat longer-term perspective, the entry of international participants offering similar services in Norway, the Competition Authority accepted the ZebSign acquisition, provided certain conditions were met. One of those conditions is that BBS must offer its services based on non-discriminatory terms and prices.

RETAIL FOOD MARKET

Competition in the Nordic food market is limited. Norwegian authorities would like smaller-sized suppliers to get greater access

FOOD PRICES NEAR HIGHEST IN EUROPE

Food prices in Norway are 38 percent higher than the average for the 15 EU member states surveyed. Moreover, the assortment of food products in supermarkets appears to be smaller in Norway compared to other European countries, according to a report by the Nordic competition authorities.

■ ■ Food is expensive in all Nordic countries. In Iceland, consumers pay 42 percent more for food products than the EU average; in Denmark, 26 percent more; and in both Sweden and Finland, food prices are 12 percent higher than the EU average. High food prices in Norway and

Iceland are caused mainly by import protection, according to a report published by the Nordic competition authorities.

NORWAY HAS SMALLEST ASSORTMENT OF PRODUCTS

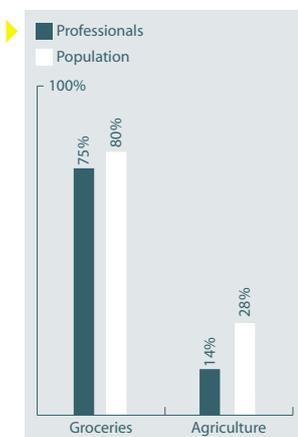
The Nordic report indicates that, among the Nordic countries, Norway has the smallest food assortment; Finland has by far the largest selection. Compared with France, however, all Nordic countries perform poorly.

According to the report, the Nordic food market is characterized by less competition than other European countries. For consumers, this situation can result in higher prices. Thus, increased competition in both industry and retailing in the food sector is important. While the buying power of supermarket chains can lower prices, it can create

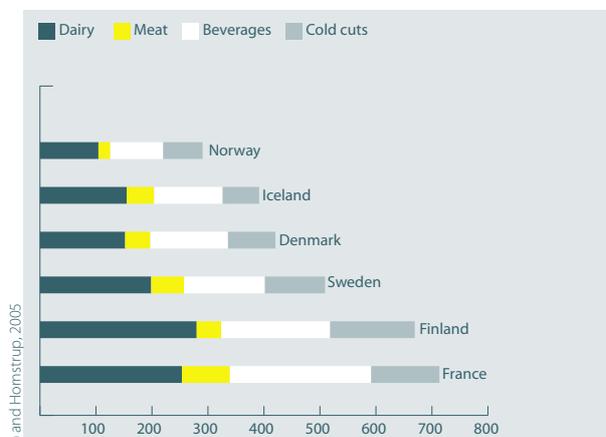
obstacles for smaller-sized producers seeking supermarket sales. Thus, the structure in the food sector – marked by powerful major suppliers and retail chains – may make it more difficult for smaller-sized suppliers to enter the market.

In the report the following measures to strengthen competition are suggested:

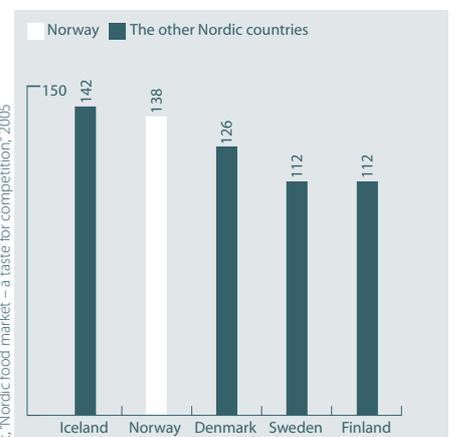
- Intervene against mergers and acquisitions that would significantly restrict competition
- Facilitate access to food retail chains for smaller-sized suppliers by blocking attempts by dominant suppliers to exclude smaller-sized competitors
- Lower the barriers to entry for new food retailers.



PERCEIVED COMPETITION
To what extent do you feel there is considerable competition in grocery and agriculture markets?
Source: MMI



TYPICAL BREADTH OF SELECTION IN SUPERMARKETS, 2005
A significant difference in breadth of selection in various categories can be seen among the Nordic countries and France.
Source: Hornstrup and Hornstrup, 2005



FOOD RETAIL PRICES IN THE NORDIC COUNTRIES
The EU 15 price average = 100 percent
Source: The report, "Nordic food market – a taste for competition" 2005

Important cases in 2005



MEASURES TO ENSURE COMPETITION IN THE GROCERY SECTOR

■ ■ In December 2004, it became known that the Norwegian supermarket chain Rema 1000 refused to sell dairy products manufactured by Synnøve Finden. Thus, the Norwegian Competition Authority began to investigate whether Synnøve Finden's competitor, Tine BA, was in breach of the prohibition against abuse of a dominant market position.

In June 2005, the Competition Authority launched a report on the effect of payments made by suppliers to secure supermarket shelf space. According to the report such payments may weaken competition and exclude smaller-sized suppliers from the market. The report's findings led the Norwegian Competition Authority to propose several measures to ensure competition in the grocery sector.

Along with these measures, the Norwegian Competition Authority imposed a duty upon supermarket chains to notify the Authority about their annual agreements with 25 major suppliers. The notification duty will remain in force for five years.

In September 2005, the Norwegian Competition Authority announced that the dairy producer Tine BA could be subject to a fine of up to NOK 45 million. The Authority's preliminary findings indicate that Tine may have abused its dominant position in the marketplace by entering into an exclusive supplier agreement with Rema 1000 that made it the supermarket chain's sole supplier of cheese. Tine may also have tried to establish a similar agreement with another supermarket chain. Tine's actions may be in breach of the Norwegian Competition Act's prohibition against abuse of market dominance and the prohibition against cooperation that restricts competition.



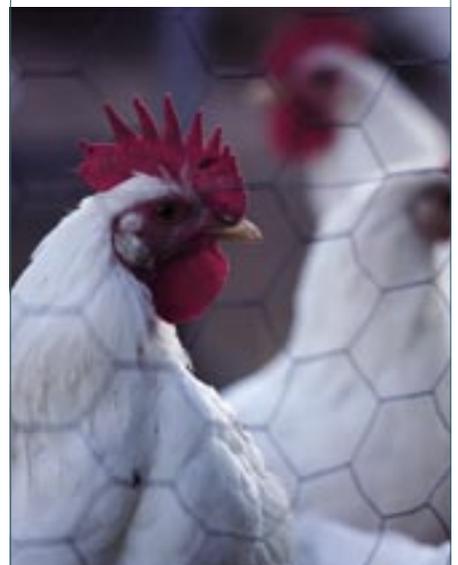
Head of Section Mona Ljunggren led the Competition Authority's work on retail food and farming.

FLOUR MILLS FINED FOR ILLEGAL COOPERATION ON PRICING

■ ■ In February 2005, The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) fined the two producers of edible flour, Cerelia and Norgesmøllene, a total of NOK 6.5 million for illegal price cooperation from June through October of 2001. The Norwegian Competition Authority reported this price-fixing to the prosecution authority in 2002.

CONDITIONS FOR EGG MERGER

■ ■ In September 2005, the Norwegian Competition Authority prohibited Prior, a Norwegian egg and poultry producer, from acquiring its competitor Norgården. In its decision, the Competition Authority determined that the acquisition would strengthen Prior's market dominance and further limit competition in the market for eggs and egg products. Prior appealed the decision, and in February 2006 the Norwegian government approved the acquisition, based on agricultural policy considerations.



THE POWER MARKET

Limited competition in the wholesale power market may lead to high power bills. Norwegian customers are too loyal to expensive suppliers.

LOOKING INTO CROSS OWNERSHIP

The Competition Authority has studied the ownership structure of Norway's power producers. The study's objective is to determine how competition is affected when many electric power producers have interlinked ownership interests.

■ ■ The deregulated Norwegian power industry can be split into two markets: the wholesale market, where power generators compete for deliveries of electric power to a unified Nordic market, and the market encompassing competitive sales to residential, commercial, and industrial customers.

THE WHOLESALE MARKET

Norwegian power producers compete with producers in other Nordic countries to deliver electric power to a joint power market. However, for significant periods, transmission grid capacity is fully utilized. As a result of so-called grid bottlenecks, participants compete in areas that are smaller than the area comprised of the four adjacent Nordic countries. Competition is restricted in some of these areas, which may result in higher power prices in the wholesale market.

Many power producers own stakes in other power-industry companies, and there are mutual ownership interests. This structure may have undesirable effects on competition. In 2005, the Competition Authority initiated a project to survey the scope of cross-ownership in the power industry. The project's findings will help determine whether there is a need to take steps to reduce cross ownership.

The Authority monitors the wholesale power market in cooperation with the Norwegian Water Resources and Energy Directorate (NVE). The

Norwegian Competition Authority's website also helps consumers select the best-priced power retailers by extensive posting of prices, terms, and conditions.

Nordic competition authorities held two meetings in 2005 to discuss important issues relating to competition in the Nordic wholesale market for electric power.

POWER CUSTOMERS SHOULD SWITCH SUPPLIERS IF THEIR BILLS ARE TOO HIGH

Norwegian consumers are able to choose among a variety of electric power retailers. In the deregulated Norwegian power market, consumers pay two power bills: a bill for the electric power used, and a grid rental charge. Power sales companies compete for customers, whereas distribution grid companies are regulated monopolies.

For competition in the power market to function well, customers must switch to the suppliers that offer the lowest prices. Greater price awareness among customers will increase the pressure on suppliers to keep power prices down. According to NVE, all customer categories – household, business, and industry – are changing power suppliers less frequently than in the past, although there are no charges associated with switching suppliers (see graph).

CONSUMER INFORMATION ON POWER PRICES

Residential electric power consumers can compare prices charged by retail power suppliers on the Norwegian Competition Authority's website. Comprehensive web-pages provide details on prices, assistance in choosing the right type of power contract to sign, and how to switch suppliers. Consumers can compare their current power supplier's historical prices with the country-wide average and historical prices of alternative vendors.

Important cases in 2005

ENERGY ISSUES ON THE EU AGENDA

■ ■ In June 2005, the European Union Commission initiated a survey of Europe's electric power industry. EFTA member states and the EFTA Surveillance Authority are following up on the survey. The EU survey seeks to identify competition-related problems that might stem from breaches of EU competition legislation.



STATKRAFT PERMITTED TO ACQUIRE TRONDHEIM ENERGIVERK

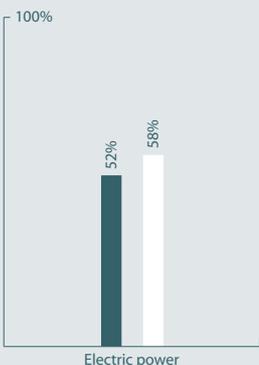
■ ■ In 2002, the Norwegian Competition Authority decided that Statkraft could only acquire Trondheim Energiverk if Statkraft divested other generating capacity. The Competition Authority's decision was unsuccessfully appealed to the Ministry of Modernization, except for a prolongation of the period in which to comply. Statkraft sold some production capacity and entered into a long-term leasing agreement covering additional production capacity. In November 2005, the government reversed the Competition Authority's decision, thereby approving the Trondheim Energiverk acquisition.



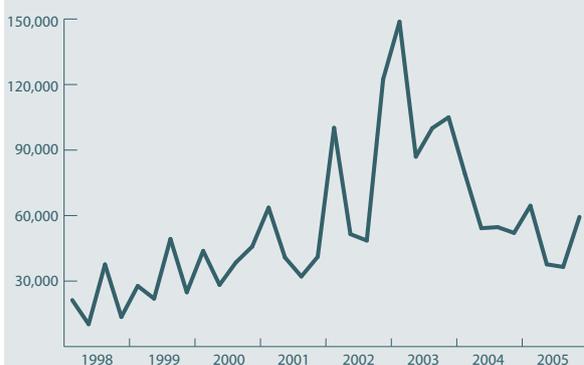
Head of Section Birgit Løyland considers it important to have a closer look at cross ownership in the wholesale power market.



■ Corporate-market customers
■ Residential customers



■ Monthly rate at which customers switch suppliers



PERCEIVED LEVEL OF COMPETITION

Source: MVI

CUSTOMER CHURN IN THE POWER SALES MARKET 1998-2005

Customer churn in the power sales market reflects price changes. Winter 2002/2003 saw major price fluctuations.

Source: NVE

THE TELECOMMUNICATIONS MARKET

More actors in the telecommunications market have given the consumers a greater choice. The price differences in the Nordic region is still major, and lower prices can still be achieved.

GREATER FREEDOM OF CHOICE

The Norwegian telecommunications market has been characterized by rapid technological development and increased competition in recent years. Nevertheless, the telecommunications company Telenor continues to enjoy a dominant position.

■ Norwegian telecommunications law requires Telenor to provide access for competitors to its nationwide infrastructure. Consumers, business, and industry have gained greater freedom of choice and lower costs for fixed telephony, mobile telephony, and Internet services as a result of the Electronic Communications Act of 2003. Telenor

is the successor to the formerly state-owned telecommunications monopoly. According to several surveys, greater competition has resulted in lower prices in the Norwegian telecommunications market. Nevertheless, with major price differences among the Nordic countries, the Norwegian Competition Authority sees room for further price reduction.

CUSTOMER AWARENESS RESULTS IN LOWER PRICES

According to the Norwegian Post and Telecommunications Authority, nearly 500,000 customers switched mobile telephone service providers in 2005, an increase of 40,000 from 2004. Customer

turnover resulted in significant downward pressure on prices. The total number of mobile telephone subscriptions (pre-paid cards and post-paid subscriptions) in Norway approached 5 million, or slightly more than the country's population, at year-end 2005.

Increased competition among different technologies will probably further strengthen competition in the telecommunications market over the medium- to long-term. The Competition Authority cooperates with the Norwegian Post and Telecommunications Authority to ensure that new market participants and technologies have terms and conditions that allow them to compete.

2005 highlights

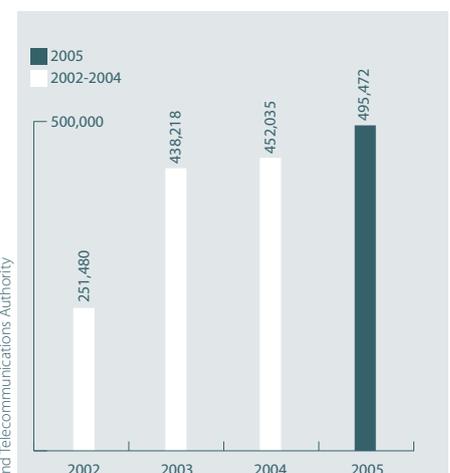
CONDITIONS CLEARED FOR TELENOR'S ACQUISITION OF TISCALI

In August 2004, Telenor acquired Tiscali's business activities in Norway. Tiscali was a supplier of broadband and dial-up Internet services to private-market customers in Norway.

After the acquisition, Telenor's broadband market share rose to 58 percent and its share of the market for dial-up Internet service rose to 65 percent. The Norwegian Competition Authority, in evaluating the acquisition, determined that it significantly restricted competition. Telenor thus committed to refraining from any similar acquisitions in the next two years, and sold Tiscali's dial-up business.

TELIASONERA'S ACQUISITION OF THE VOLLVIK GROUP ALLOWED

In August 2005, TeliaSonera acquired the Vollvik Group, owner of the Norwegian mobile telephone service providers Chess and Sense. TeliaSonera, the incumbent in Sweden and Finland, already owned NetCom, Norway's second largest mobile phone operator. TeliaSonera's share of Norway's end user mobile telephone market increased as a result of the acquisition, but Telenor still is the largest mobile-phone market participant, with a market share of nearly 56 percent. The Competition Authority believed that no clear conclusion could be drawn as to a weakening of competition, and thus did not intervene against the acquisition.



MOBILE TELEPHONE CUSTOMERS THAT HAVE SWITCHED SERVICE PROVIDERS

Mobile telephone subscriptions churn, January 2002 through December 2005

Source: Norwegian Post and Telecommunications Authority



NAME: VERA HOLST ECKBO

POSITION: International Coordinator of the Norwegian Competition Authority



NAME: LARS SØRGARD

POSITION: Chief Economist of the Norwegian Competition Authority

International cooperation is increasingly important

■ ■ As a small state that is not part of the enlarged European Union, it is increasingly important that the Norwegian Competition Authority keeps close contact with the international community. The Authority prioritizes European cooperation within the European Economic Area (EEA), but Nordic cooperation and cooperation within OECD are also important.

It is vital for the Norwegian Competition Authority to maintain a close working relationship with the EFTA Surveillance Authority and the European Commission, particularly for the sake of the strength and efficiency of competition law – and its efficient enforcement. In 2005, the EFTA Surveillance Authority and the EEA/EFTA states established a network for cooperation in handling and enforcing EEA Agreement prohibitions.

Following the reform of EC legislation on concentrations, EEA legislation has been amended. Norway may participate in transfers of cases from the Commission to national authorities, as well as transfers to the Commission.

The Norwegian Competition Authority has actively participated in certain EC legislative work, as well as the Commission's investigations, case handling, and sector inquiries.

The need for economic analysis

■ ■ In some cases competition benefits society and consumers, but in other cases the opposite is true. Thus, economic analysis of the effects of competition in different markets and in different cases is needed. The Norwegian Competition Authority applies a result-based approach in most cases, especially in merger cases and abuse of dominance cases. For example, economic analysis played an important role in the case in which SAS Braathens was fined for predatory price cutting against Coast Air on a domestic route.

NCA has also applied economic analyses to better understand a competitive situation in specific markets. For example, we applied economic theory when we analyzed the role of shelf-space allotments in the grocery sector in Norway. In addition, we hire external economic experts, as was done to study both the dairy sector and the relevant market in the transport sector. Moreover, we have a staff group that is being trained in econometrics, so we can perform in-house statistical analyses.





NAME: MADS MAGNUSSEN

POSITION: Legal Director of the Norwegian Competition Authority



NAME: EIGIL P. JOHNSEN

POSITION: Chief Investigator of the Norwegian Competition Authority

Competition cases at the forefront

■ ■ 2005 was the first full year Norway's new Competition Act was in force. The Competition Authority responded to extensive public interest and handled a large case load.

The Competition Authority recorded a total of 1,671 new cases in 2005. That figure includes 623 business concentrations, 162 possible breaches of competition act prohibitions, 195 releases of hearings statements, 28 reports identifying public measures that may restrict competition, and 116 matters relating to international cooperation, decisions and rules. The Authority expended considerable resources responding to requests for guidance on the new Competition Act.

The Competition Authority is responsible for monitoring compliance with the Competition Act's prohibitions against agreements restricting competition and abuse of dominant market positions. Many of the 162 new cases involving the Act's prohibitions that were opened in 2005 are still under consideration. A determination that violations of the Act occurred is likely in several of these matters, as to which the Authority will most likely levy fines.

The Competition Authority has been granted extensive investigative powers in order to fulfill its duty to ensure that business undertakings do not violate the prohibitions of the Competition Act. In 2005, the Authority prepared in-house guidelines to ensure systematic and efficient investigations while protecting the various legal rights of undertakings.

The Competition Authority is empowered to intervene in mergers, acquisitions, and other business concentrations that would lead to significant restriction of competition. Monitoring such concentrations is resource-demanding; under the Competition Act, parties to a concentration are subject to a comprehensive duty to submit notification of a concentration to the Authority. Of the 623 short-form notifications received in 2005, the Authority ordered the submission of complete notifications in 19 cases. In two instances, the Authority decided to prohibit the business concentration, and in four cases, the Authority approved the transaction provided certain conditions were met.

Surveys show that the duty to submit notification is commonly breached. In 2005, the Authority made efforts to follow up on a large number of such breaches, and in this connection issued six decisions to impose fines.

Faster and better investigation and enforcement

■ ■ In the Competition Act of 2004, a new and more efficient sanction system is introduced. The Competition Authority itself can now determine administrative fines in order to enforce the Act. Fewer cases will have to be reported to prosecuting authorities, and duplication of time-consuming investigations can be eliminated. The intended results are faster and better investigation and enforcement than under the Competition Act of 1993.

KEY STATISTICS 2005

Dawn raids: 2 cases

Accepted fines: NOK 7.5 million

Relinquishment of profit: NOK 3.7 million

New cases referred to the police for prosecution: 1

The sanctions mentioned above concern three cases:

- 4 undertakings, transportation of EUR-pallets, price cooperation
- 1 undertaking, construction, bid-rigging
- 2 undertakings, flour, price cooperation

In 2005, the public prosecutor dismissed three cases. Two of the cases concerned price cooperation and exchange of information in local areas. The third case involved vertical restrictions in a local market for car tires.

THIS IS THE NORWEGIAN COMPETITION AUTHORITY



Organization and personnel

STRATEGY AND ORGANIZATIONAL DEVELOPMENT

■ ■ The Norwegian Competition Authority's vision: Healthy competition for the welfare of all. The Norwegian Competition Authority is working to promote healthy competition, for the benefit of consumers, business, and industry.

NEW ORGANIZATION

In 2003, Norway's national parliament decided to relocate the Norwegian Competition Authority from the nation's capital, Oslo, to the country's second-largest city, Bergen. As part of the Authority's move to Bergen, working methods and case processing procedures have been improved and further developed. Also, the Bergen headquarters will be formulated as a more project-based, problem-solving organization, in which management is involved in early phases of key issues. Several of the Authority's important cases in 2005 have been organized as projects, with participants drawn from various departments and staffs.

In March 2005, the secretariat function of the Public Procurement Complaint Board, which handles complaints regarding purchases by government bodies, was organized under the Norwegian Competition Authority.

ORGANIZATION PORTAL

In the autumn of 2005, work began on developing a new organization-wide web portal. The portal comprises a new Intranet and web pages for external users. In-house, the portal will serve to facilitate day-to-day processing of issues, and as a communications tool.

PERSONNEL FIGURES

No. of employees (as of February 2006)

	Total	Women	Men
Oslo	54	26	28
Bergen	59	23	36
Total	113	49	64

Employees and staff education

Position	Total	Women	Men
Economists	44	16 (36%)	28 (64%)
Law degrees	37	20 (54%)	17 (46%)
Other college or university education	13	4 (31%)	9 (69%)
High school diploma or less	19	9 (47%)	10 (53%)
Total	113	49 (43%)	64 (57%)

Sick leave: 4.5%.

Employee turnover in 2005 was 30%. Many who left in 2005 gave the relocation to Bergen as the reason for leaving the Authority.

Professional meetings

CONFERENCES HELD IN 2005

- Prohibition on cooperation among enterprises that restricts competition.
- Competition between public and private sector business activities.

SEMINARS HELD IN 2005

- Discussion: "Is the media's treatment of government agencies a threat to the protection afforded by due process?"
- Seven meetings of the competition legislation forum; this is a professional forum featuring lectures on current legal and legislative topics, including open questions and discussions.
- Eleven meetings of the competition economics forum; this forum adds to the strong business management and economics environment found in Bergen.

PUBLICATIONS

■ ■ Competition Authority reports published in 2005

Three reports were issued by Competition Authority staff in 2005 and two reports were commissioned by the Authority; these reports are in Norwegian. The Competition Authority also participated in the publi-

cation of a joint Nordic competition authorities report, "Nordic food market – a taste for competition."

■ ■ Reports prepared by the Competition Authority

- 1/2005: On equal terms? An analysis of competition between public and private sector enterprises.
- 2/2005: Paying for shelf space – effects on competition in Norway's retail food market.
- 3/2005: Free professions – freer competition?

■ ■ Reports prepared on behalf of the Competition Authority

- The role of intermediaries and their effects on competition.
- Competition in the dairy sector

MASTERS DEGREE THESES ON COMPETITION

Janicke Wiggen (28) and Øyvind Thomassen (29) were awarded NOK 15,000 each for co-authoring the best thesis submitted for the Competition Authority's annual award, established in 2004, for masters' level students on the subjects of competition law and competition-related issues.

Many issues, high activity levels

Cases handled by the Competition Authority in 2005

	2004	2005
Interventions against mergers and acquisitions	5	6
Interventions against anti-competitive practices	4*	1
Identification of public regulations detrimental to competition	10	6
Hearing submissions of significance	81	61
Rejections of request for intervention (2004 Competition Act)	10	41
Administrative fines – failure to submit notification of mergers and acquisitions	0	6
Decisions on duty to submit information to the Authority		9
Decisions regarding maximum prices for taxis		2

* New Competition Act, which includes a prohibition against abuse of dominant market position, introduced in 2004. Previously, the Competition Authority had to use its regulatory powers to intervene in such cases.

Budget and accounts

In 2005, the Norwegian Competition Authority's total budget was NOK 113.8 million; NOK 81.2 million was budgeted for ordinary operations and NOK 32.6 million on the relocation to Bergen.

2005 operations

(Amounts in NOK thousand)	Budget	Actual	Under/over 2005 budget
Total, ordinary operations	81,203	80,779	424
Competition Authority	79,739	78,094	1,645
KOFA*	1,464	2,685	-1,221
Relocation/organizational changes	32,574	24,514	8,060

* Secretariat of the Public Procurement Complaint Board

2005 operating expenses

(Amounts in NOK thousand)	Ordinary operations	Relocation costs
Total	80,779	24,514
Salaries and other personnel expenses	54,016	6,436
Goods and services	26,762	18,078

SERVICE SURVEY

A survey of the public and those using the Authority's services revealed that the Competition Authority enjoys a good reputation. Nine out of ten respondents say the Authority's work is important to society.

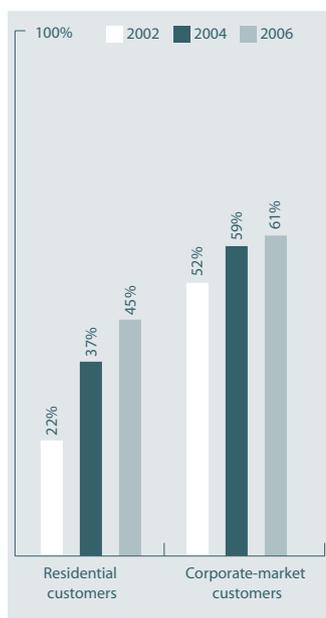
Good reputation and satisfied users

■ ■ The survey was conducted in January and February of 2006 by the MMI market research firm on behalf of the Competition Authority. Among those surveyed were lawyers, academicians, business and industry leaders, media, business organizations, trade unions, and other interest groups. A representative sample of the general public was also asked to give its perception of the Competition Authority and its work.

public sampling and among professional users feels that the work of the Competition Authority is important to society; this proportion, too, has risen steadily in recent years.

According to the survey, a greater proportion of respondents who stated they were familiar with the Competition Authority expressed a favorable impression of the Authority's work, compared with a similar survey done in 2004 (see charts). A good proportion of respondents both in the general

Chart 1



IMPRESSION OF THE COMPETITION AUTHORITY

"What is your overall impression of the Norwegian Competition Authority?" The proportion of survey respondents who answered "Good" and "Very Good" is shown.

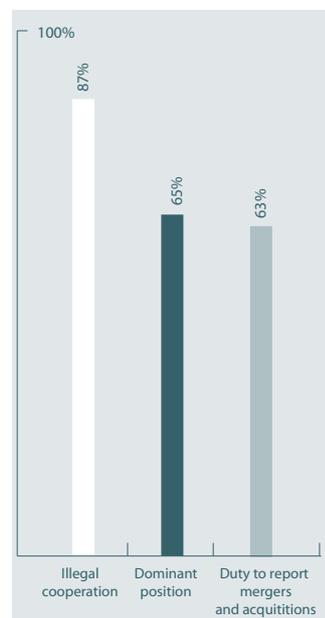
Chart 2



IMPORTANCE OF THE AUTHORITY'S WORK

"How important do you consider the Competition Authority's work to the general welfare of society?" The proportion of survey respondents who answered "Important" and "Very important" is shown.

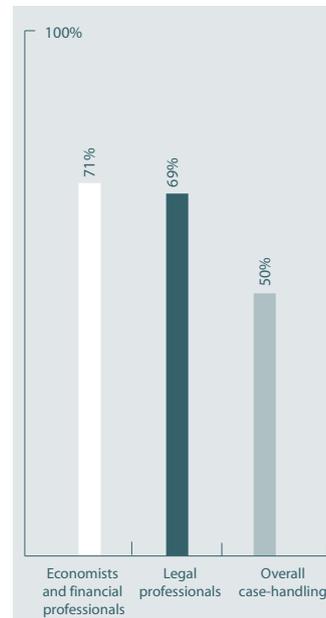
Chart 3



FAMILIARITY WITH NORWAY'S COMPETITION ACT

"How familiar are you with the provisions of Norway's Competition Act?" The proportion of survey respondents who answered "Familiar" and "Very Familiar" is shown.

Chart 4



THE AUTHORITY'S LEVEL OF COMPETENCE

Proportion of professionals responding that they have a good impression of the Competition Authority's expertise.



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