



HM Government

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Dear Andrea,

### **Competition at the heart of the UK economy**

Ensuring competition is working effectively right across the country is at the heart of this Government's vision for the economy. In our Manifesto, we committed to tackle consumer rip-offs and bad business practices and to support disruptors taking risks on new ideas and challenging incumbents. As you know, free and fair competition is critical to reducing the cost of living by providing consumers with better deals, incentivising firms to innovate, and driving productivity and long-run economic growth.

However, our existing understanding of how well competition is working across the economy ('the state of competition') is limited. While the CMA collects valuable information on competition in particular markets through its markets work, merger control regime and antitrust enforcement activities, unlike other key drivers of economic success, such as GDP growth or the employment rate, there is no agreed way to measure and monitor the state of competition across the whole economy.

This has come into sharp focus in recent international academic and policy debates where a number of studies have suggested that competitive pressure across advanced economies, including the UK, could be weakening.<sup>1</sup> Preliminary BEIS research at Annex 2 sets out our initial view on the limitations of the existing methodologies that need to be addressed to deliver a robust assessment of these issues.

An expert analysis of the state of UK competition is needed to fill this gap and enable Government to determine on an ongoing basis what, if any, additional action is needed to promote competition across the UK economy.

### **Delivering an expert state of competition assessment**

We are therefore commissioning the CMA to prepare and publish a regular state of competition report to raise our collective understanding of the level and nature of competition across the UK economy.

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<sup>1</sup> For example, recent analyses such as De Loecker and Eeckhout (2018) 'Global Market Power' suggest mark-ups, the extent to which firms charge prices above their marginal costs, are increasing across advanced economies.

We recognise this will not be a straightforward task and no other competition authorities currently publish such metrics. However, we are confident that as a world-leading competition authority publishing influential and innovative research, the CMA has the expertise to lead this agenda, working with the academic community, the Office for National Statistics and others, and that substantial progress can be made in understanding the state of competition across the economy. As such, we anticipate the scope, depth and breadth of reports will continuously improve as our understanding of the issues improves.

We have agreed that you will publish the first report in Summer 2020 which will include the CMA's preliminary assessment of these issues. The CMA will work with Government to confirm the regularity of subsequent reports as part of the CMA's regular reporting. The terms of reference for this commission are set out at Annex 1.

### **Driving evidence-based economic policy**

This work will provide the CMA, Government and the public with valuable evidence to inform whether and where any additional action on the part of the CMA or Government may be required to boost competition across UK markets.

The ambition is that these reports will also provide both the CMA and Government with information to better target our respective resources and tools towards raising competition in particular sectors or national, regional or local markets that may be found to be of potential concern.

We look forward to receiving the first report and continuing to work closely with you more generally to deliver competitive outcomes across the UK economy.

Your sincerely,



**THE RT. HON SAJID JAVID MP**  
Chancellor of the Exchequer



**THE RT. HON ANDREA LEADSOM MP**  
Secretary of State for Business, Energy and Industrial Strategy