

**The Role of Competition Advocacy by Competition Authority**  
**Speech by**  
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**1. Introduction**

My name is Aiko Shibata, Commissioner of the Japan Fair Trade Commission. I am very much honored to give a presentation at this memorable first annual conference of the ICN. In the context of the competition advocacy role to be played by competition authorities, I would like to talk about regulatory reform in Japan. I will focus my presentation on the Japanese electric power industry to illustrate competition advocacy activities by the Japanese competition authority and its achievements.

**2. Traditional Regulation on the Electric Power Industry**

Free competition prevailed in the Japanese electric power industry before the World War II. After the War, however, an amendment of the applicable law carved up the national territory to ensure monopoly for a private electric company in each area.<sup>1</sup> Consequently, the freedom of entry to the market and price competition was not permitted.

**3. Brief History of Competition Advocacy by Competition Authorities**

The Fair Trade Commission was the first in the Japanese government to respond to the general public opinion and the call of the OECD by taking the lead in deregulating the monopolistic electric utilities. That is to say, it was the Fair Trade Commission that paved the way for introducing competition in this field. The Commission did this, first by convening a study group to

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<sup>1</sup> *The traditional argument concerning the electric power service was that it should be regarded as a universal service, which means public goods available in any time in any place with the same price.*

exert influence on the ministries and regulatory agencies through wide publication of its findings, and then by encouraging the regulatory agency governing the electric utilities <sup>2</sup> to cooperate in promoting necessary reform.

Let me explain how things have developed.

1. In April 1997, the Fair Trade Commission convened a study group, which published a report calling for “authorizing the entry of new competitors and abolishing the system of regional monopoly.” The membership of the study group included academics, opinion leaders and the Executive Office of JFTC. The report was widely disclosed to mass media, ministries and governmental agencies, Diet members and the general public.
2. The regulatory agency governing the electric utilities agreed to the object of this report and convened a Council for the deregulation of electric utilities. The Fair Trade Commission participated in the Council as observer, along with the members of the Commission’s study group. Thus, the Fair Trade Commission worked with the regulatory agency in promoting the deregulation of the electric utilities.
3. Based on the report prepared by the Council, the Electricity Utilities Industry Law was amended in May 1999. The main objective of the amendment was to ensure free entry into a segment of the electric power business, namely special high-voltage power supply to large users.

However, the partial deregulation of power supply did not lead to any substantial increase in new entry. Therefore, the Fair Trade Commission has been making efforts to improve this situation. These efforts can be largely classified into two categories.

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<sup>2</sup> *The Ministry of Economy, Industry and Trade has the authority to amend the Electricity Utilities Industry Law, which governs the electric power industry, and to oversee its implementation. The Agency of Natural Resources and Energy is in charge of the electric power industry under the auspices of the Ministry of Economy, Industry and Trade,*

**First is the crackdown on anticompetitive practices.<sup>3</sup>**

Under the Antimonopoly Act, the Fair Trade Commission issued a warning to an electric power company in July 2002 for blocking new entry. The practice in point was the charging of retaliatory cancellation fees to the users who switched to a new entrant for power supply.

**The second category is competition advocacy.**

The Fair Trade Commission held study group meetings and published its reports to inform a wide range of people. The Commission also worked with the ministry and agency concerned to prepare relevant guidelines, which were also made public. So far, the Commission has issued three public reports of its Study Group on Deregulation, in 1997, in 1999 and in 2002. Also, in cooperation with the Ministry and the regulatory agency governing the electric utilities, the Commission published two reports on electric power transactions, in 1999 and in 2002.

#### **4. Result**

The result of those activities can be seen in the decline in electric utility rates. In three years since 1999, electric utility rates for small household users have dropped almost 10%. This decline was more than expected, for power supply to small users has not yet been deregulated. The decline in the already deregulated large user rates seems to have exceeded 10% on average.

In addition to the electric power business, which I talked about, the Fair Trade Commission have been encouraging regulatory reform in various fields including medical care, nursing care, gas, telecommunications, postal service, passenger transport, finance and agribusiness.

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<sup>3</sup> *The Fair Trade Commission promotes competition based on the Antimonopoly Act, which is applicable to the deregulated segment of the electric power business. With the authorization of free entry into power supply to large users, a general law that is the Antimonopoly Act can now regulate this sort of power supply.*