

Competition Commission Investigates Supermarkets' Land Banks.

The UK supermarket sector is worth around \$120bn. The industry is comprised of four big groups, Tesco, Asda, Sainsbury and Morrisons. The leader, Tesco, pockets around one in every seven pounds spent in the entire UK retail market. Such is the importance of the grocery sector and its dominance by four big players that it has been investigated three times in the last seven years by the UK Competition Commission. Not surprisingly, Asda has asked for this investigation to be the last for a decade.

The latest investigation has focused on the apparent practice of land banking, which comprises of the purchase of land by supermarkets, but little if any development of that land.

The Commission's report has criticized supermarkets for holding or selling land in a way that could be anti-competitive. Most of the Big Four have so-called land banks: sites in various stages of development. The commission will say that retailers who hold undeveloped land in towns where they are strong could be doing so with anti-competitive intent.

The Commission will also seek to stamp out the use of "restrictive covenants", a questionable practice under which supermarkets sell stores or land with the proviso that they are not used by other supermarkets.

The planning system has also been criticized and is likely to be revamped. The Commission has suggested that the so called "needs test", whereby a new entrant has to prove that a town requires a new supermarket, is a barrier to entry and could be axed. The needs test is unpopular as it hands a big advantage to the incumbent in any town. Abolishing the test would create a level playing field between the Big Four by making it easier for them to open stores.

However it could prove unpopular with small, independent retailers, who have been put under unprecedented pressure by supermarkets' unrelenting expansion. It could ultimately be replaced by a "fascia test", under which the presence of independent stores will be taken into account.

Changes to the planning rules and to sale of land may well alter the way in which supermarkets grow. However, many commentators and industry insiders are unconcerned about the possible impact on profits and company values. Most land suitable for supermarket expansion is banked, many shoppers have at least two supermarkets within a ten minute drive of where they live or work; and the Commission cannot impose remedies on the industry which have a disproportionate cost to the industry.

Questions

1. What are the main characteristics of an oligopoly and do they apply to the UK supermarket industry?
2. Explain and discuss whether land banking acts as a barrier to entry?
3. Is it reasonable for Asda to ask for a 10 year cessation of Competition enquiries?