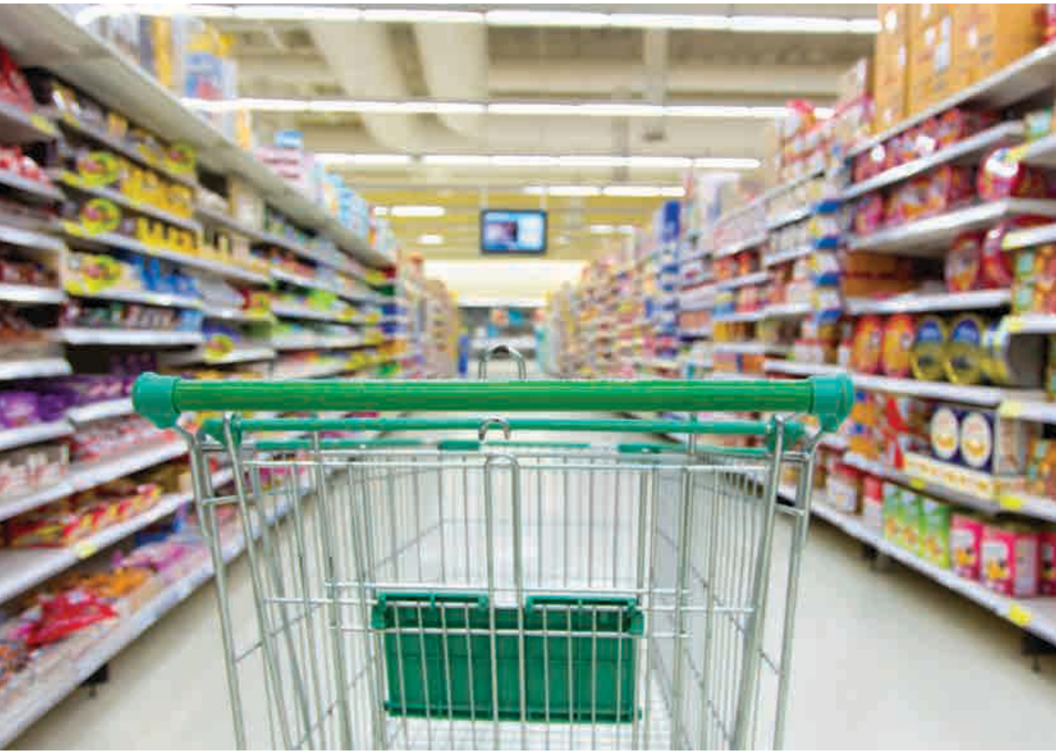
COMPETITION COUNTS

HOW CONSUMERS WIN WHEN BUSINESSES COMPETE



FEDERAL TRADE COMMISSION

THE FTC'S BUREAU OF COMPETITION: PROTECTING FREE ENTERPRISE AND AMERICAN CONSUMERS

What if there were only one grocery store in your community? What if you could buy a phone from only one retailer? What if only one dealer in your area sold cars?

Without competition, the grocer may have no incentive to lower prices. The phone shop may have no reason to offer a range of choices. The car dealer may have no motivation to keep its showroom open at convenient hours or offer competitive financing.

Competition in America is about price, selection, and service. It benefits consumers by keeping prices low and the quality and choice of goods and services high. Competition also encourages businesses to offer new and better products.

Competition makes our economy work. By enforcing antitrust laws, the Federal Trade Commission helps to ensure that our markets are open and free. The FTC promotes free and open competition and challenges anticompetitive business practices to make sure that consumers have access to quality goods and services at competitive prices, and that businesses can compete on the merits of their work. The FTC does not choose winners and losers – you, as the consumer, do that. Rather, our job is to make sure that businesses are competing fairly within a set of rules.

Through its Bureaus of Competition and Economics, the FTC puts its antitrust resources to work, especially where consumer interest and spending are high: in matters affecting energy, health care, food, pharmaceuticals, professional services, computer technology and databases, medical devices, and funeral services.

WHAT IS ANTITRUST?

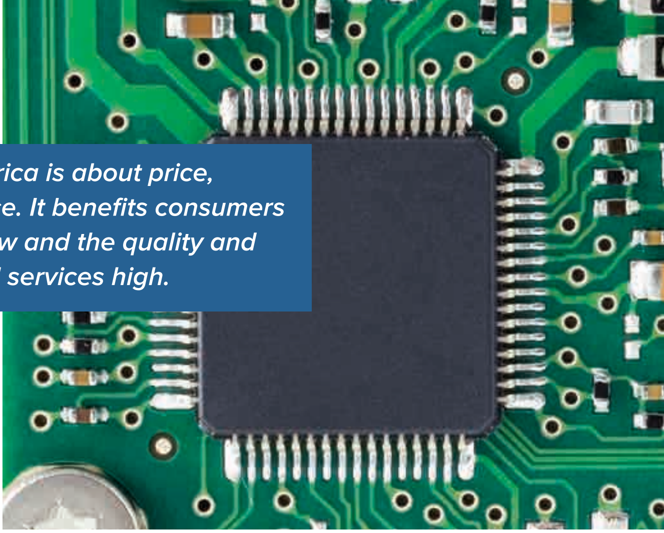
The word “antitrust” dates from the late 1800s, when powerful companies dominated industries, working together as “trusts” to stifle competition. Thus, laws aimed at protecting competition have long been labeled “antitrust.” Fast forward to the 21st century: you hear “antitrust” in news stories about competitors merging or companies conspiring to reduce competition.

The FTC enforces antitrust laws by challenging business practices that could hurt consumers by resulting in higher prices, lower quality, or fewer goods or services. We monitor business practices, review potential mergers, and challenge them when appropriate to ensure that the market works according to consumer preferences, not illegal practices.

What kinds of business practices interest the Bureau of Competition? In short, the very practices that affect consumers the most: mergers, agreements among competitors, restrictive agreements between manufacturers and product dealers, and attempts by monopolists to thwart new competitors. The FTC reviews these and other practices, looking at the likely effects on consumers and competition. We ask: Would they lead to higher prices, inferior service, or fewer choices for consumers? Would they make it more difficult for other companies to enter the market?

“Antitrust laws...are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms.”

U.S. Supreme Court Justice Thurgood Marshall
United States v. Topco Associates, Inc.,
405 U.S. 596, 610 (1972).



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HERE ARE SOME BUSINESS PRACTICES THE FTC MONITORS:

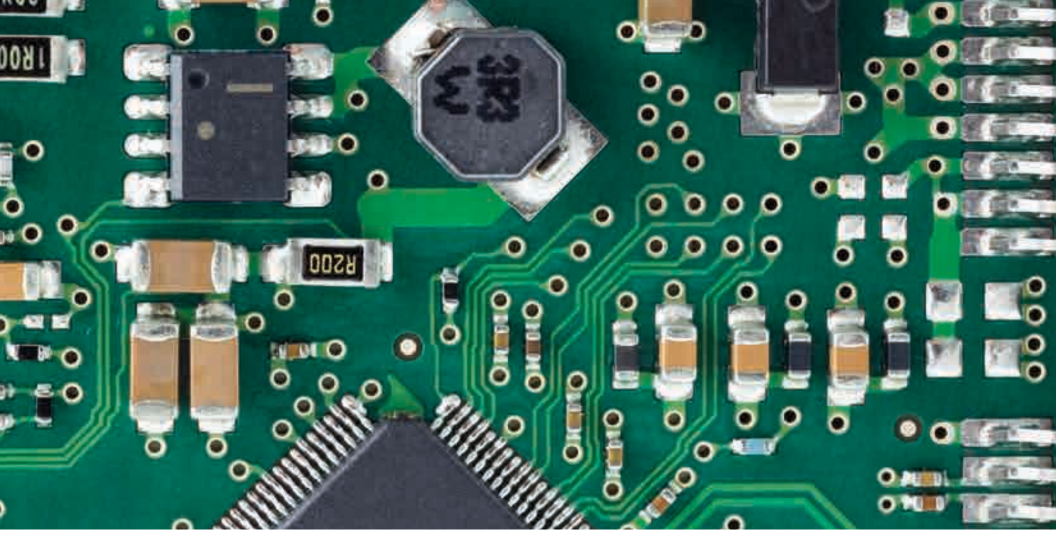
Mergers

Many mergers benefit consumers by allowing firms to operate more efficiently. Other mergers, however, may result in higher prices, fewer choices, or lesser quality. The challenge for the FTC is to analyze the likely effects of a merger on consumers and competition – a process that can take thousands of hours of investigation and economic analysis. In one FTC case, a major baby food maker wanted to buy one of its two competitors. Based on evidence that the merger would lead to higher prices for consumers, the FTC went to court and successfully blocked the deal.

Agreements Among Competitors

It's illegal for business rivals to act together in ways that can limit competition, lead to higher prices, or hinder other businesses from entering the market. In one FTC case, a group of auto dealers threatened to stop advertising in a newspaper if it printed money-saving tips for car shoppers. The FTC challenged the dealers because it is illegal for businesses to act together in ways that can deprive consumers of important information about products they want to buy.

Agreements among business rivals about price or price-related matters like credit terms are among the most serious business practices the



FTC considers. That's because price is usually the principal basis for competition and consumer choice. Price fixing – companies getting together to set prices – is illegal. But that does not mean that all price similarities, or price changes that occur about the same time, are the result of price fixing. On the contrary, they often result from normal market conditions. For example, prices of commodities such as wheat are often identical because the products are virtually identical, and the prices that farmers charge all rise and fall together without any agreement among them. If a drought causes the supply of wheat to decline, the price to all affected farmers will increase. Uniformly high prices for a product in limited supply also can result from an increase in consumer demand: Just ask any shopper hunting for a "must have" children's toy.

Agreements Between Manufacturers and Product Dealers

Many "package deals" create efficiencies that are beneficial to consumers: for example, automobile dealers sell tires with their cars because it makes sense. You might prefer a different kind of tire, but shipping and selling cars without tires is not practical. On the other hand, some "tie-in" agreements are illegal because they restrict competition without providing benefits to consumers. For example, the antitrust laws likely would not permit a drug manufacturer to require customers to buy a patient monitoring system they don't want along with the prescription drugs they do want.

Monopoly

A monopoly exists when one company controls a product or service in a market. If a company gains a monopoly because it offers consumers a better product at a better price, that's not against the law. But if it creates or maintains a monopoly by unreasonably excluding other companies, or by impairing other companies' ability to compete against them, that conduct raises antitrust concerns. For example, a newspaper with a monopoly in a small town could not refuse to run advertisements from businesses that also advertised on a local television station.

Other Anticompetitive Conduct

Business strategies that reduce competition may be illegal if they lack a reasonable business justification. For example, a pharmaceutical company's exclusive contracts with suppliers of a key ingredient kept generic drug makers from getting that ingredient. Without competition from generics, the pharmaceutical company was able to raise prices 3,000 percent: a $5 prescription would have cost consumers $150. The FTC, 32 states, and the District of Columbia challenged the contracts, which resulted in a $100 million court settlement for injured consumers.

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KEEPING MARKETS COMPETITIVE

By challenging anticompetitive business practices, the FTC helps to ensure that consumers have choices in price, selection, and service. To learn about competition problems, the FTC often receives information from consumers like you. If you suspect illegal behavior, please notify the FTC or your state's Attorney General (visit naag.org).

CONFIDENTIALITY

The FTC cannot act on behalf of an individual consumer or business, but the information you provide can help expose illegal behavior.

With few exceptions, FTC investigations are not public. If you ask us about an investigation, you may be told that we cannot discuss it, or even confirm or deny its existence. But we can receive your information and make sure it gets to appropriate FTC staff.

HOW YOU CAN HELP

If you have an antitrust problem or complaint, or if you wish to provide information that may be helpful in an investigation, contact the FTC.

E-mail: antitrust@ftc.gov

If you wish to submit confidential information, send it by mail and mark it "Confidential."

Mail: Federal Trade Commission
Bureau of Competition-H374
Washington, D.C. 20580

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Federal Trade Commission
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MAY 2015