



# COMPETITION ASSESSMENT: UNLOCKING GROWTH



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# Agenda for today's discussion

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- Benefits of competition for consumers
- Benefits of competition for firms
- Benefits of competition for the economy
- Why do we regulate?
- OECD PMR Indicators
- The OECD Competition Assessment Toolkit
- Examples of competition assessments



# BENEFITS OF COMPETITION



## Benefits of competition – consumer side

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*Competition leads to substantial reductions in consumer prices*

*Competition provides greater choice*

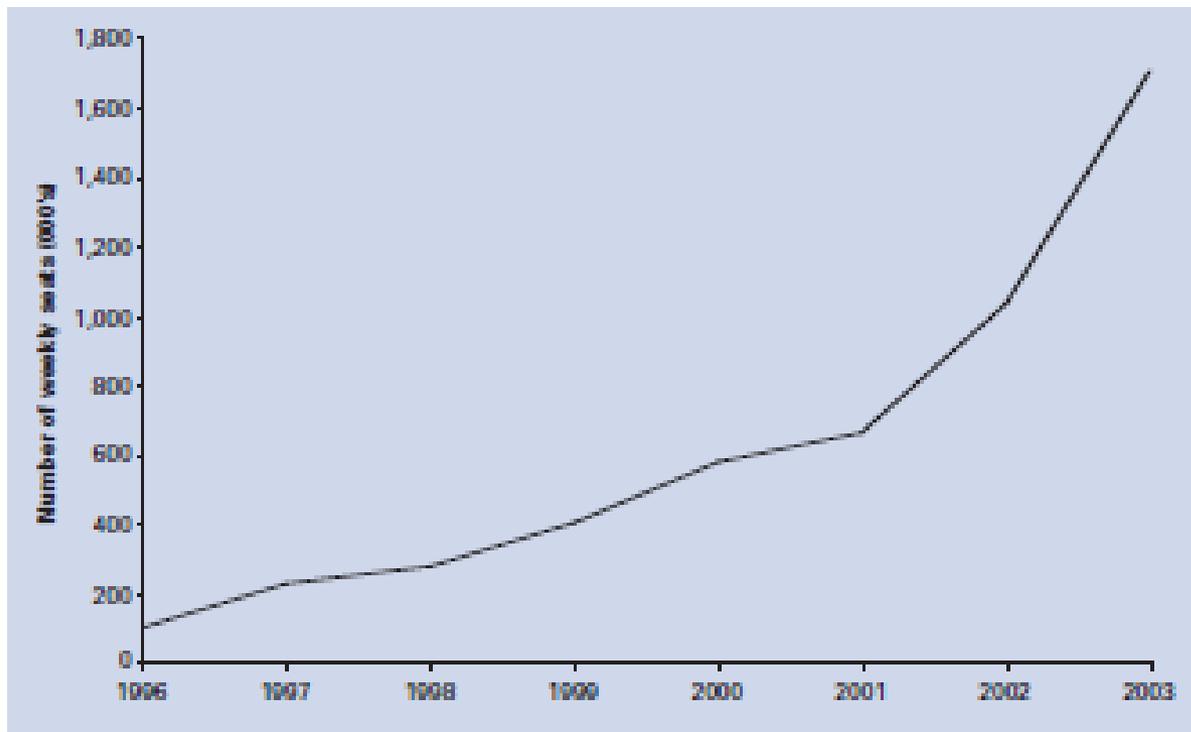
*Competition fosters investment that leads to better quality products*



# Passenger Flights in Europe

Market liberalisation in 1993 led to more intense competition and entry of low-cost carriers (e.g. EasyJet, Ryanair )

Figure 5.2 Number of Weekly Seats (000's) on European Low-Cost Airlines 1996-2003



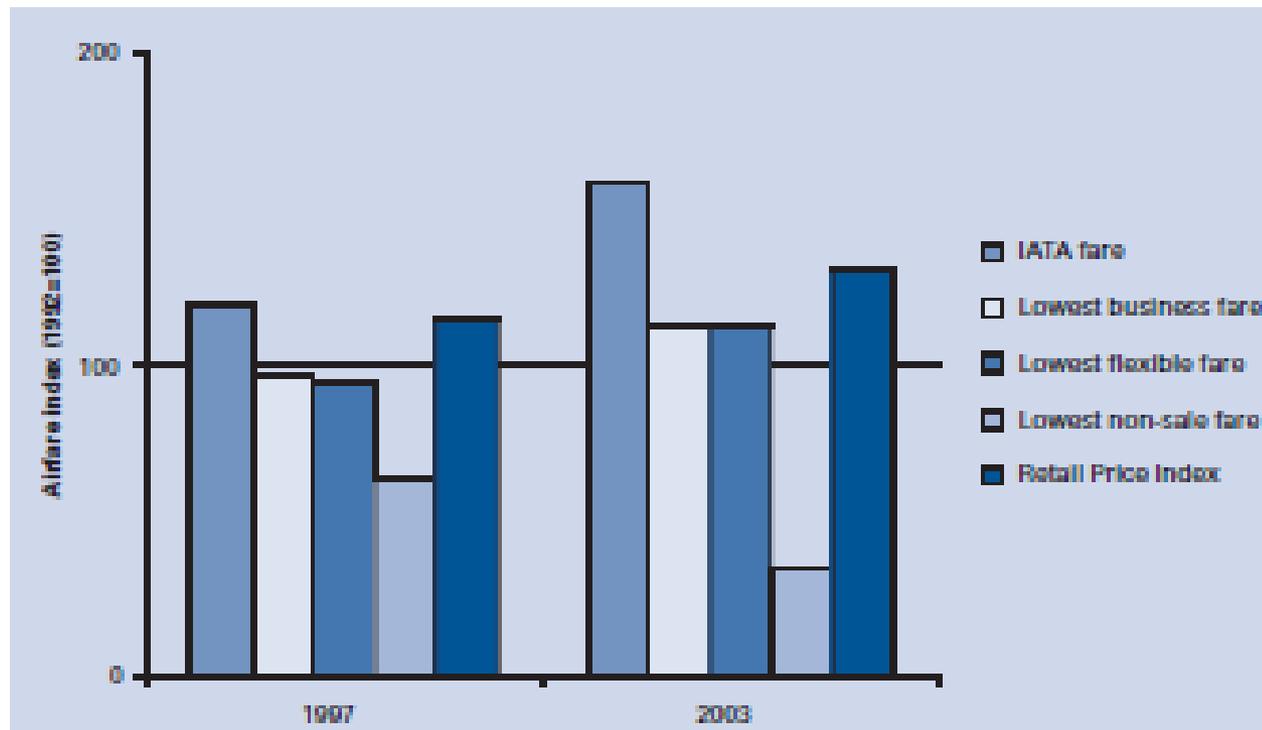
Source: OAG Scheduler Data



# Passenger Flights in Europe

Price of the lowest priced carrier had fallen by 36% by 1997 and 66% by 2002

Figure 5.3(b) Lowest Priced Carrier's Average European Airfares (1992=100)

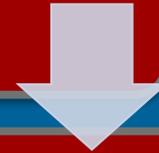


Source: CAA

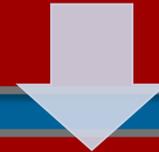


## Benefits of competition – the firm side

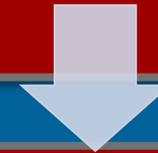
*Drives firms to improve their internal efficiency and reduce costs*



*Provides incentives to firms to adopt new technology*



*Provides incentives to firms to invest in innovation*



*Reduces managerial inefficiency*



# Competition spurs productivity and growth

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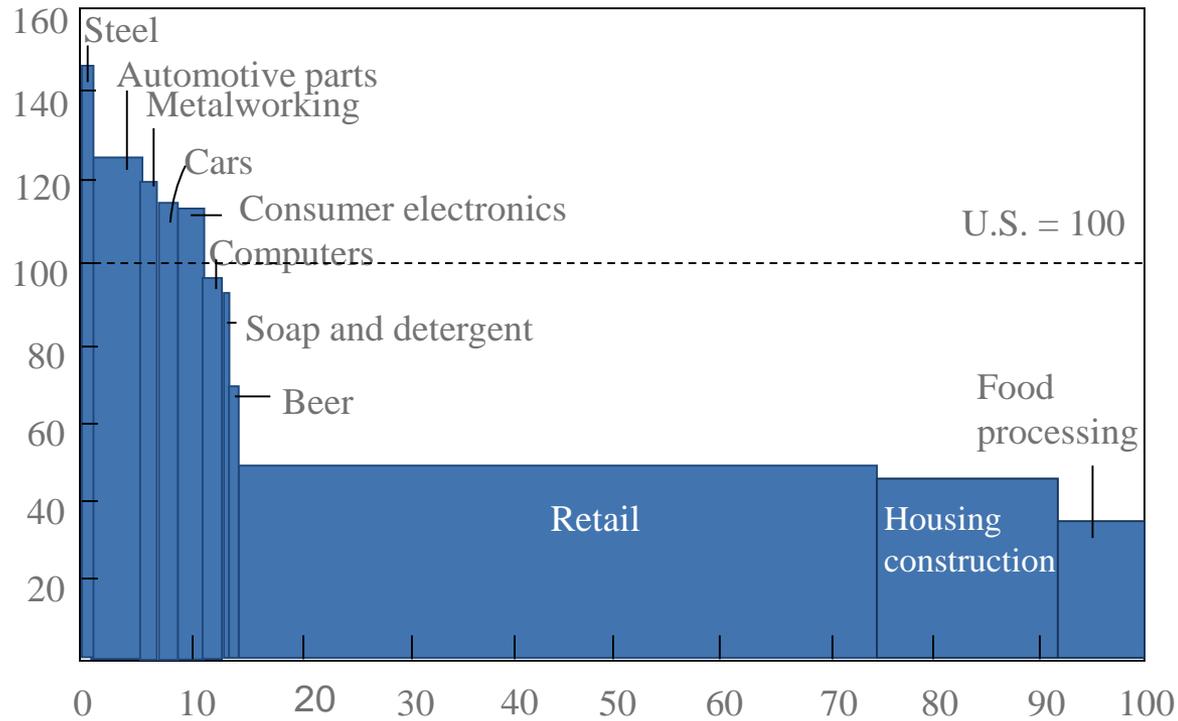
- More competitive industries have higher productivity *rates* and higher productivity *growth*
  - Competitive industries enjoy higher annual productivity growth (Nickell finds 2% gap)
- Virtuous Circle: as products became cheaper and better, consumers buy more and firms' turnover increases
- Leading to higher productivity and economic growth
  - EU single market increased productivity
  - Countries with stronger competition frameworks have higher growth (World Bank)



# Competition and Productivity -- Japan's Dual Economy

## Relative productivity levels

Index U.S. = 100



Employment

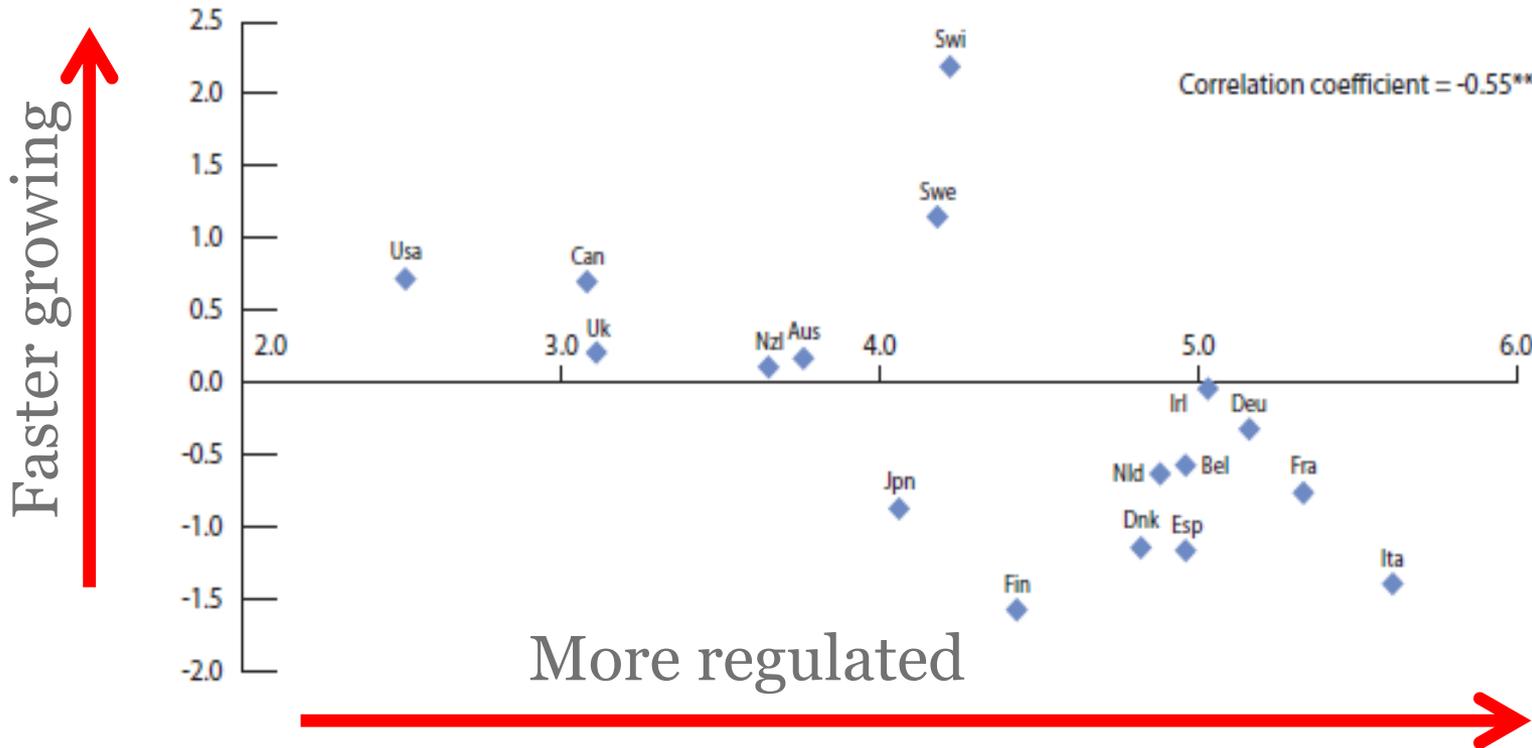
100% = 12.5 million employees

Source: McKinsey Global Institute



# Regulation can stifle growth by hampering productivity

*Increase in multi-factor productivity compared to regulatory stance*



Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.



# WHY DO WE REGULATE?

A look at a regulation, why we need it,  
and why it may sometimes be an  
impediment to competition and growth



# Regulation



- Markets do not always operate efficiently, need for state intervention = regulation
- Correctly designed regulation has very important beneficial effects for society (protection for consumers & environment, health & safety, etc.)
- Rules and regulations typically have desirable socio-economic objectives
- BUT
  - **badly designed regulation can also distort competition**



# Regulations and their impact on markets

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- In specific circumstances, rules and regulations have the potential to **cause harm to the efficient functioning of markets**, by preventing new firms entering a market or altering the ability and incentives of firms to compete
- We do not question the socio-economic values
- **Our objective:** assess the effects of the regulations on
  - Extent of competition in the markets
  - Incentives for firms to engage in innovative activity
  - Potential for growth of the markets
  - The usefulness or purpose of the regulation itself



# Regulations and their impact on markets

- ✓ For example, medical and other professional associations routinely impose several restrictions
- ✓ In the name of setting standards, medical associations restrict the number of medical schools, require stringent certification standards, and requirements to practice
- ✓ We do not question the need to set standards
- ✓ What we are concerned about is **whether the standards are set too high** as this very likely will
  - Erect barriers to entry and reduce the number of professionals (true for most professions)
  - Increase prices and burdens on starting a businesses
  - Lower the incentives for the professionals to compete in other dimensions such as quality and variety of care and services
  - Potentially be harmful to consumer welfare in the long run

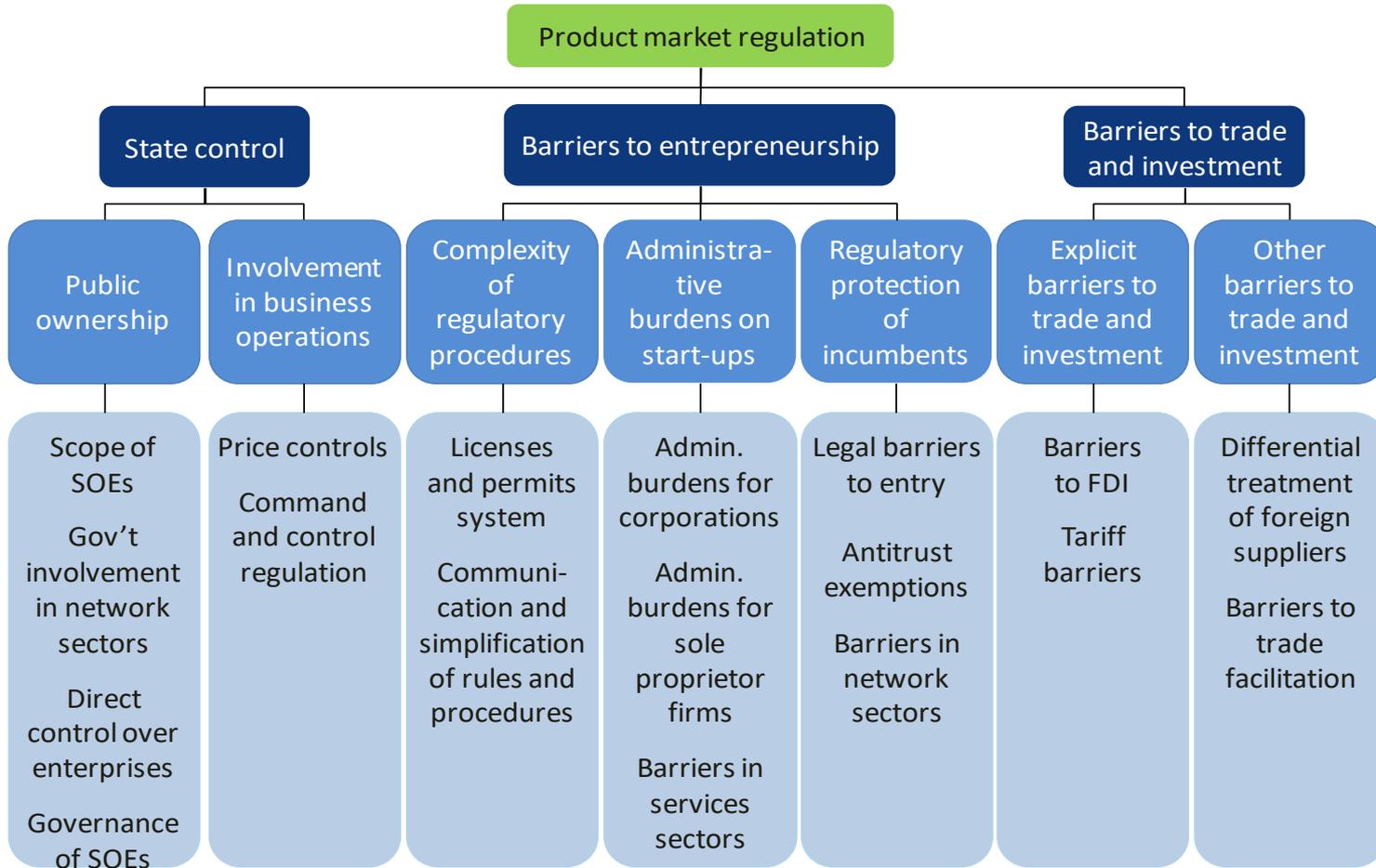


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# Product market regulation and competition issues



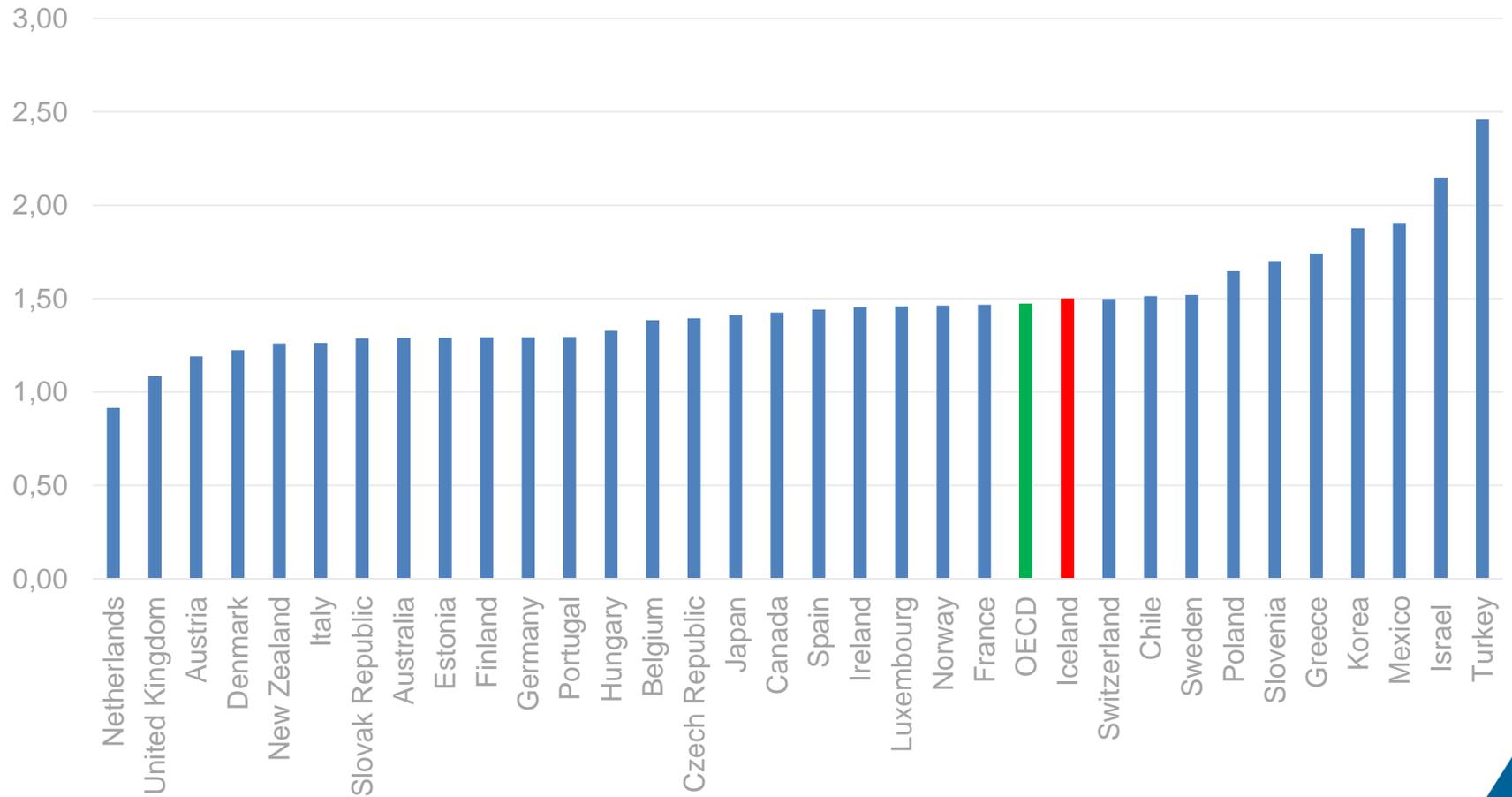
# OECD Product market regulation index





# Product Market Regulation

PMR - 2013



**Data by theme** Popular queries

Find in Themes  **Reset**

Public Sector, Taxation and Market Regulation

- Public Sector, Taxation and Market Regulation
  - Government at a Glance
  - Taxation
  - Fiscal decentralisation
- Market Regulation
  - Economy-wide regulation
    - Product Market Regulation 2013**
  - Sectoral regulation

### Product Market Regulation 2013.

 Customise  Export  Draw chart  My Queries

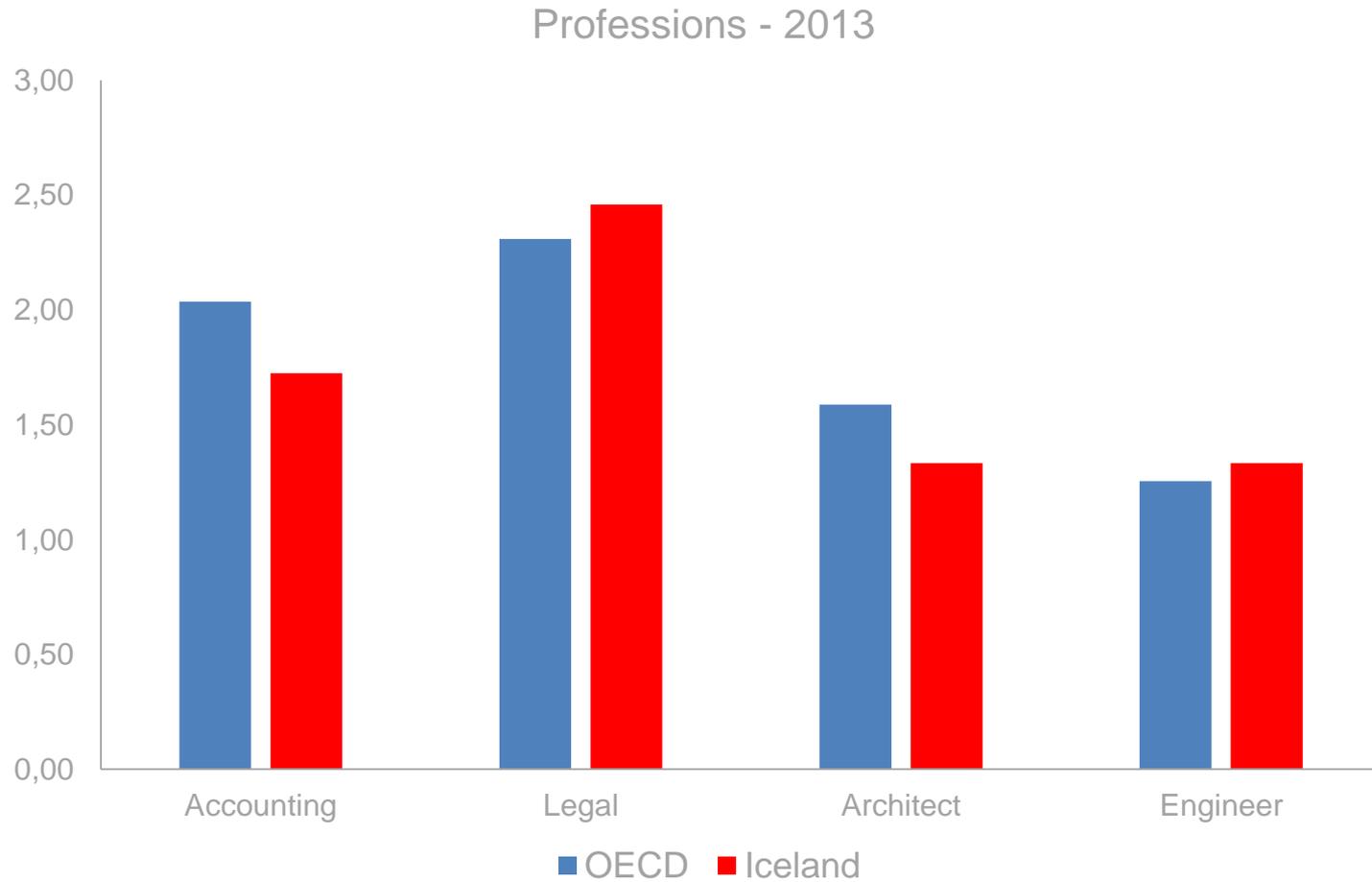
	→ Indicator	PMR: Product mar
	→ Year	1998
→ Country		▲ ▼
Australia		1.7
Austria		2.1
Belgium		2.3
Canada		1.9
Chile		
Czech Republic		2.6
Denmark		1.6
Estonia		
Finland		1.9
France		2.3
Germany 		2.2
Greece		2.7
Hungary		2.6
Iceland		2.0
Ireland		1.9



Data extracted on 02 Dec 2015 23:54 UTC (GMT) from OECD.Stat



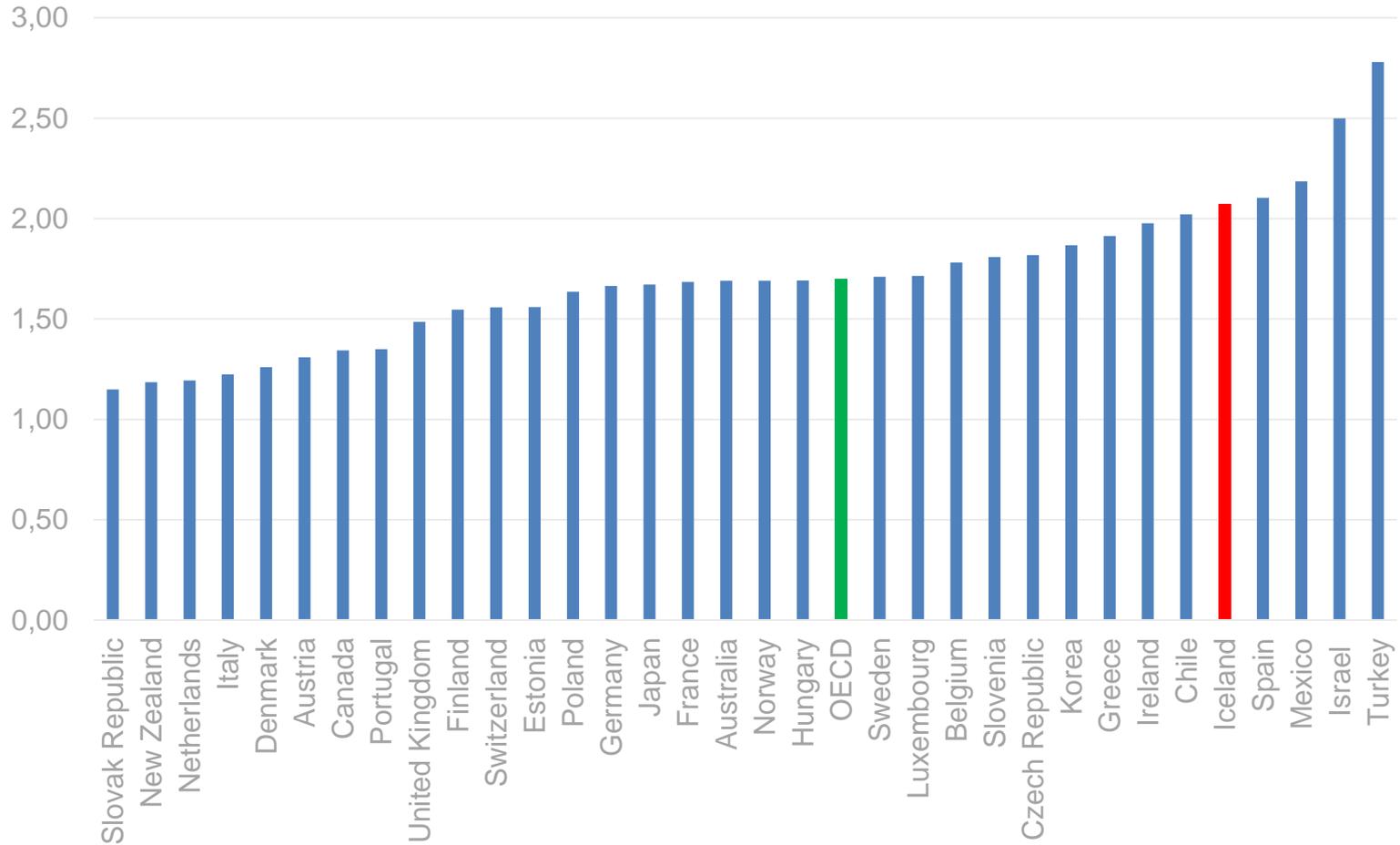
# Product Market Regulation





# Product Market Regulation

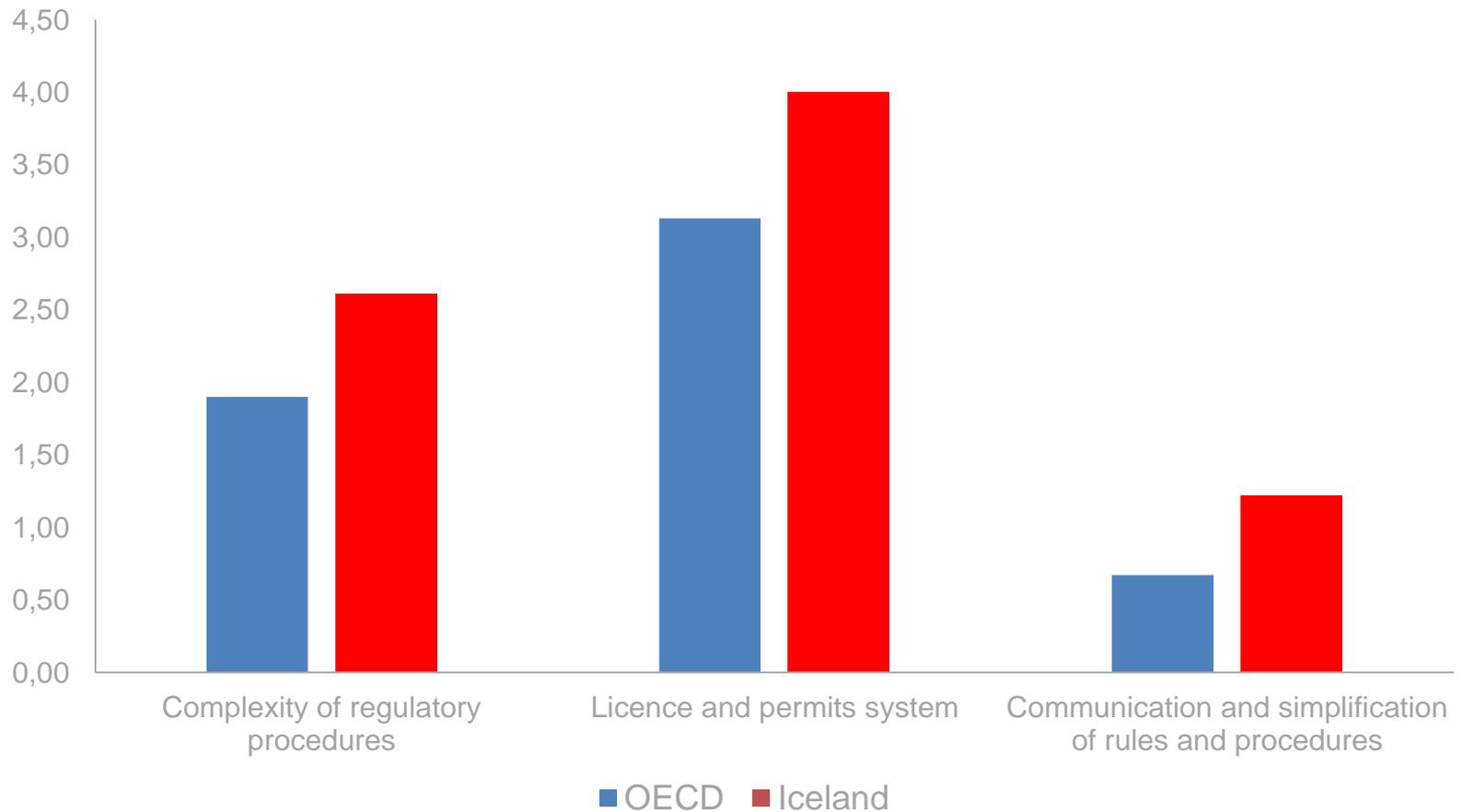
Barriers to entrepreneurship - 2013





# Product Market Regulation

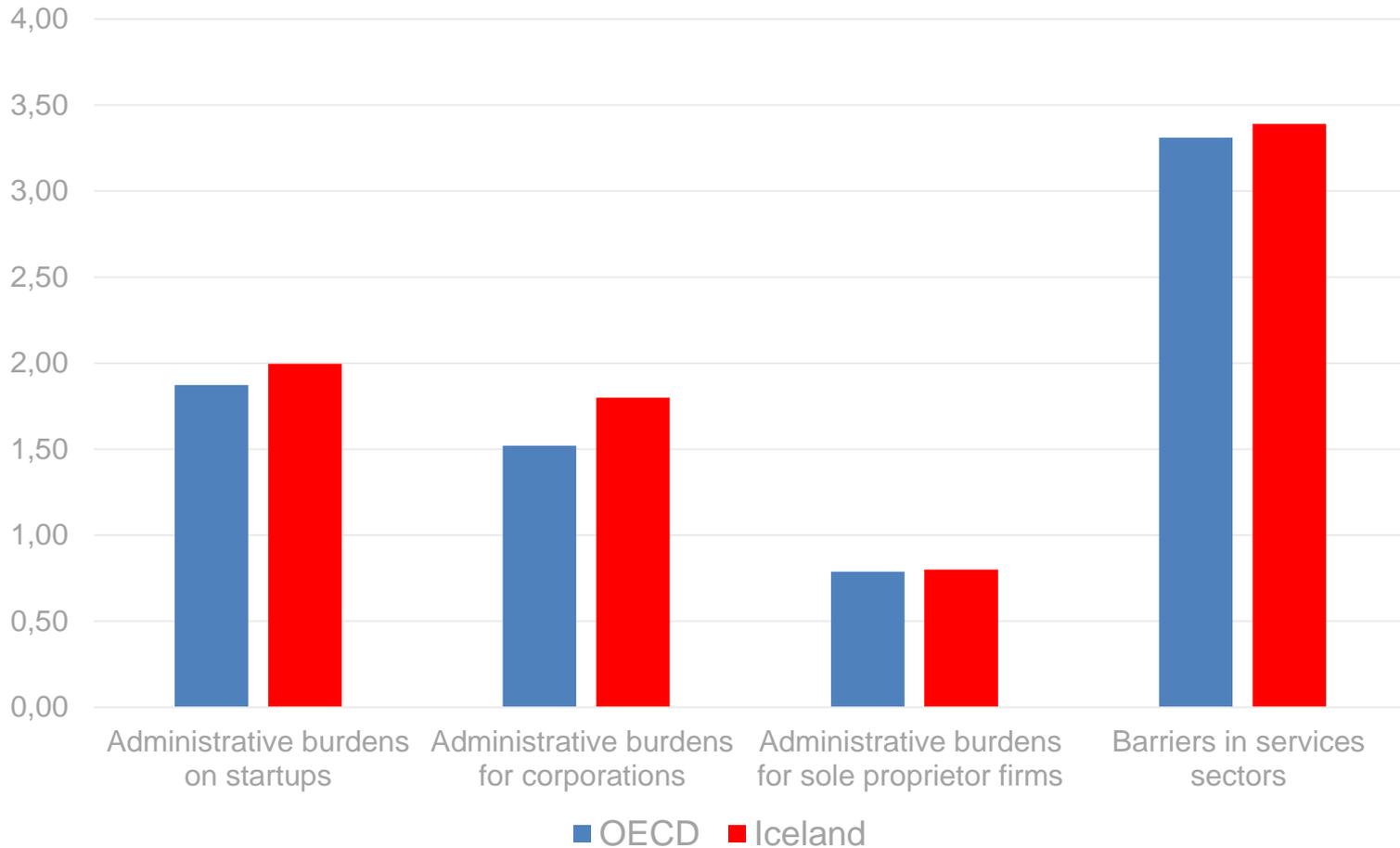
Barriers to entrepreneurship - in detail





# Product Market Regulation

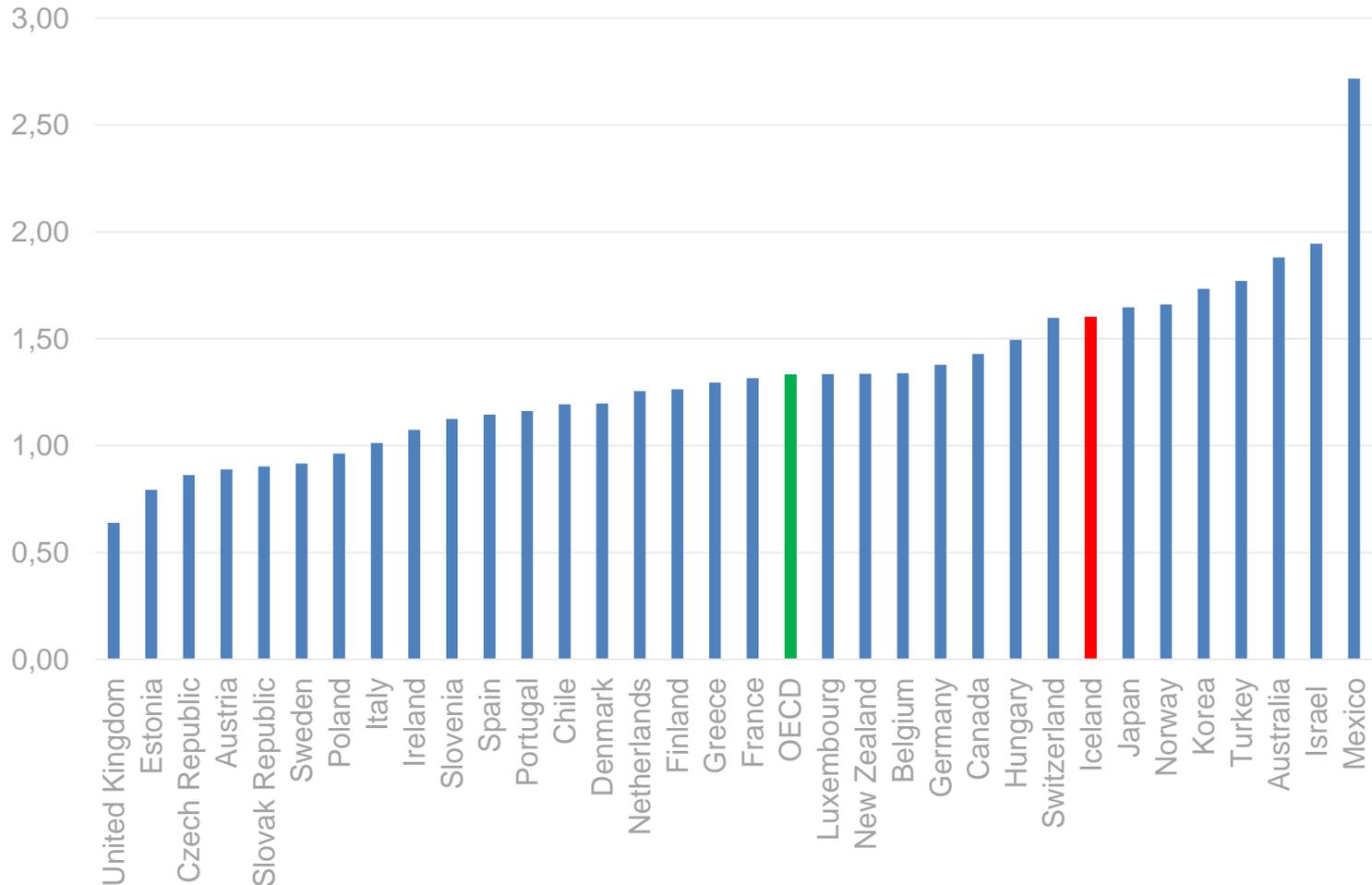
Administrative burdens on startups - 2013





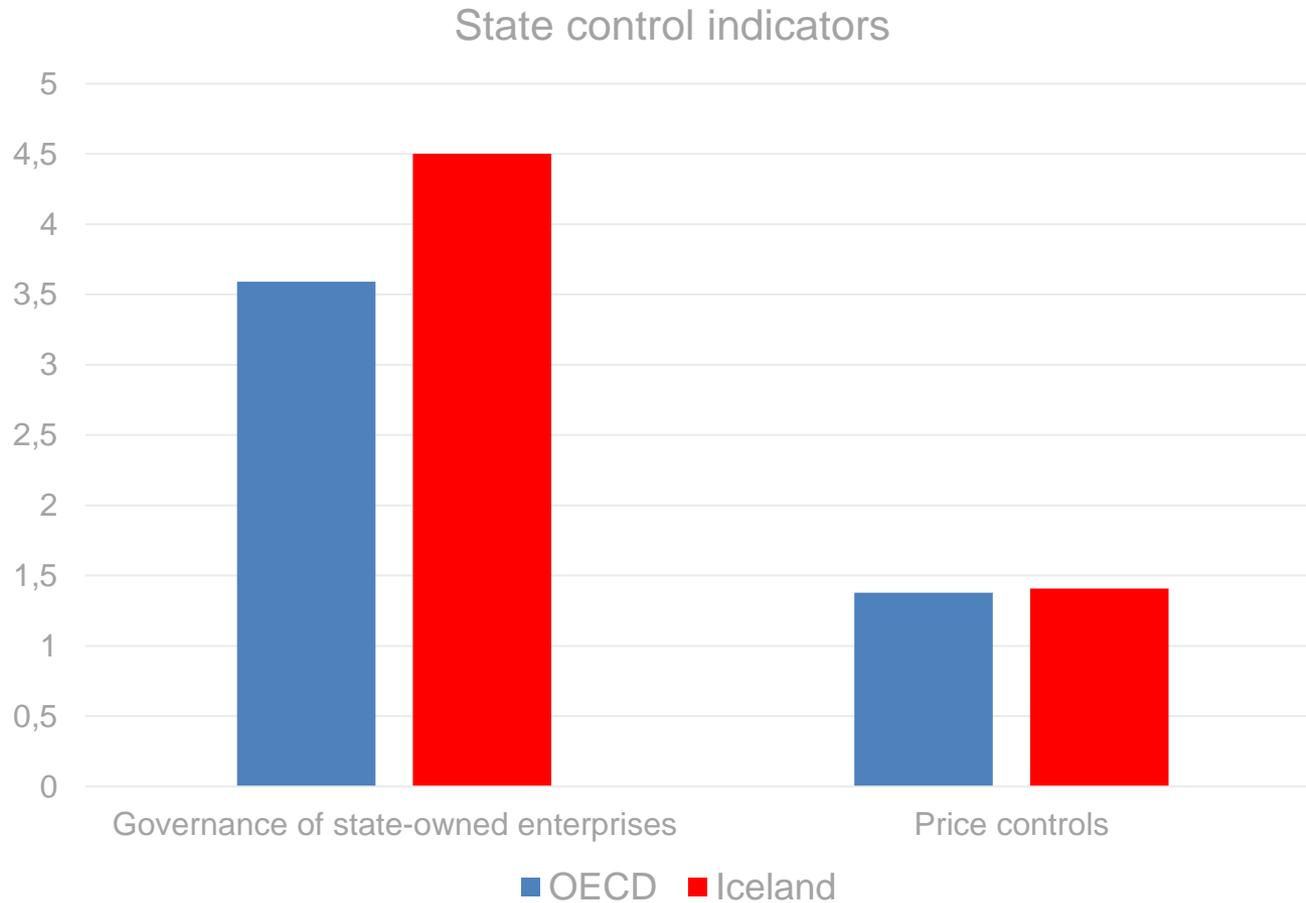
# Product Market Regulation

Regulatory protection of incumbents





# Product Market Regulation





# Why **competition** assessment?

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- The objective is to assess **the effect** of regulation on
  - Extent of competition in the markets
  - Incentives for firms to engage in innovative activity
  - Potential for growth of the markets
  - The (unintended) effect on consumers
- A different way of stating the objectives
  - We want to avoid restricting competition when making policy
  - Better to address concerns related to competition and innovation before a policy is enacted
    - Vested interest-groups may make later corrections rather difficult



## Why the emphasis on **assessments**?

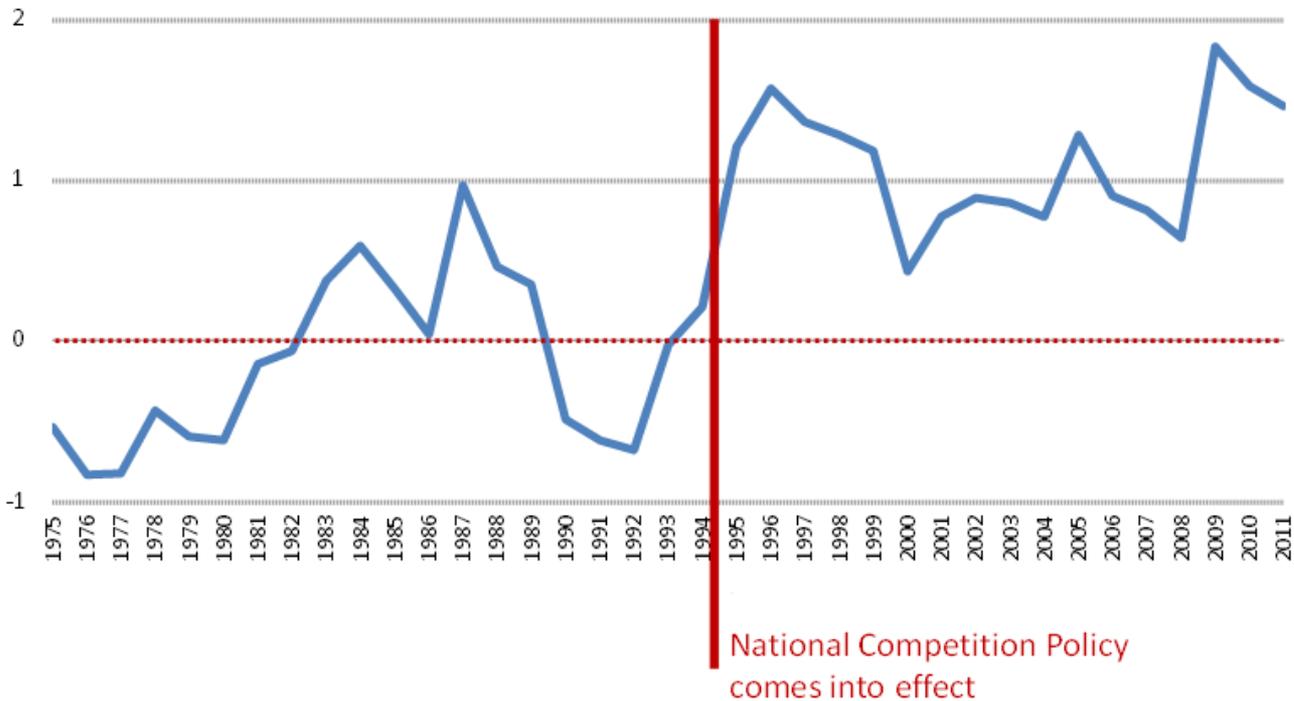
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- Some of the factors relate to
  - Increasing realisation that markets may work reasonably well in many industries that traditionally have been heavily regulated
  - Change in technology and market conditions warrant re-evaluation of many types of regulations
  - Improved quality of regulations may lead to national economies becoming more competitive and innovative, and domestic firms being in a better position to compete globally
- The assessment process involves revision and improvement and should lead to positive change



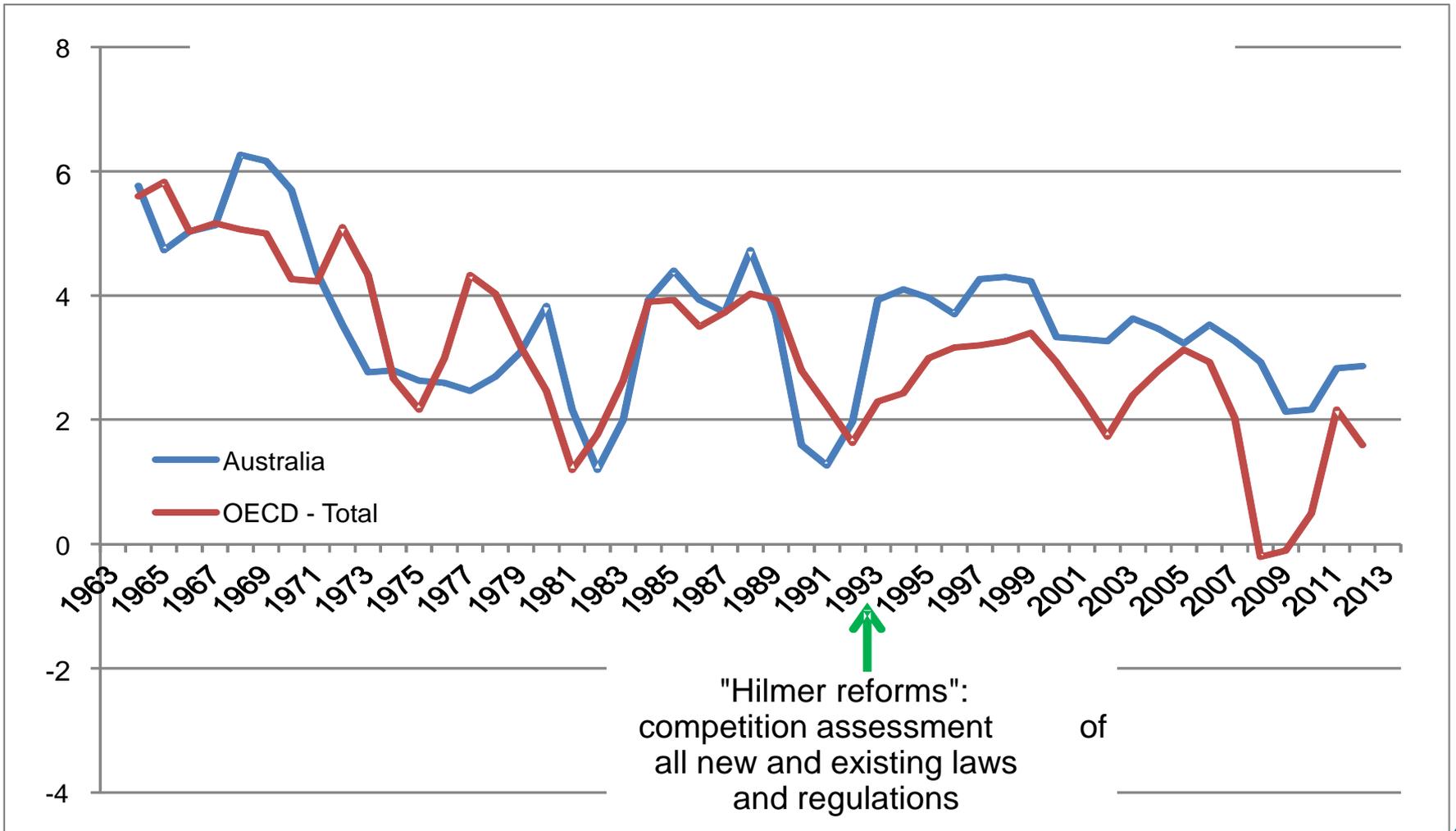
# Pro-competitive reform can help

*Difference, Australia GDP growth to OECD average*





# Competition and growth after reform



Source: OECD. Three-year moving average



# Australia Benefited from Competition Reform

- Growth in real gross domestic income among the best of OECD countries
- Unemployment rate has fallen to around 5% -- lowest level since the 1970s
- Inflation within the target range
- A long stretch of fiscal surpluses, general government net debt eliminated.
- Living standards steadily improved since the beginning of the 1990s, now surpass all G7 countries except the United States.
- Wide-ranging reforms, particularly to promote competition, were instrumental -- OECD 2006.





# THE OECD COMPETITION ASSESSMENT TOOLKIT



# OECD Competition Assessment Toolkit

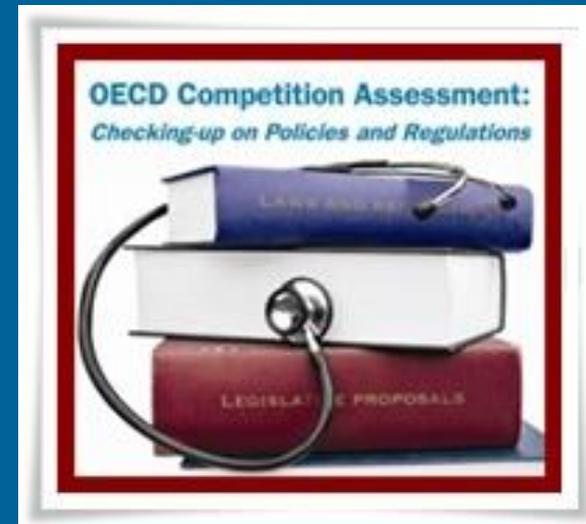
- Competition Assessment Toolkit (CAT), 2011 (Vol 3, 2015)
  - [www.oecd.org/competition/toolkit](http://www.oecd.org/competition/toolkit)
- Designed for government officials in decision-making roles and staff who will conduct the assessments
- CAT includes writings on
  - Institutional options for competition assessments
  - Integrating competition assessments into **regulatory impact analysis**
- The CAT has a **two-step assessment process**





# OECD Competition Assessment Toolkit

- **Step One**: A competition assessment **checklist**
  - Designed as an initial screen to “**qualitatively**” assess market interventions that may be relatively problematic
  - Structured to be conducted in short time frame
  - Framework is based on concepts from Industrial Organisation theory, competition policy and law enforcement
- **IF** potential harm to competition identified, then a more detailed review is recommended
- **Step Two**: Detailed competition assessment
  - Designed to fully and “**quantitatively**” evaluate those interventions that have the potential to cause significant harm
  - Restructure rules & regulations to minimise harm to competition





# Competition Assessment Checklist

## Initial Screening Based on the Checklist

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- The checklist consists of four core questions
- A **YES** answer to any of the questions would signal a competition concern and warrant a detailed review of the rule or regulation under consideration





# Competition Assessment Checklist

## Initial Screening: Checklist Question #1

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- Does the rule or regulation **limit the number or range of suppliers?**
- This could arise, for example, if a regulation
  1. Grants exclusive rights for a company to supply goods or services
  2. Establishes a license, permit or authorization process as a requirement for operation
  3. Limits the ability of some suppliers to provide a good or service
  4. Significantly raises cost of entry or exit by a supplier
  5. Creates a geographic barrier to the ability of companies to supply goods or services, invest capital or supply labor



# Competition Assessment Checklist

## Initial Screening: Checklist Question #2

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- Does the rule or regulation **limit the ability of suppliers to compete?**
- This could arise, for example, if a regulation
  1. Controls or substantially influences the prices for goods or services
  2. Limits freedom of suppliers to advertise or market their goods or services
  3. Sets standards for product quality that provide an advantage to some suppliers over others or that are above the level that many well-informed customers would choose
  4. Significantly raises costs of production for some suppliers relative to others (especially by treating incumbents differently from new entrants)



# Competition Assessment Checklist

## Initial Screening: Checklist Question #3

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- Does the rule or regulation **reduce the incentive of suppliers to compete?**
- This could arise, for example, if a regulation
  1. Creates a self-regulatory or co-regulatory regime
  2. Requires or encourages information on supplier outputs, prices, sales or costs to be published
  3. Reduces mobility of customers between suppliers of goods or services by increasing the explicit or implicit costs of changing suppliers
  4. Exempts the activity of a particular industry or group of suppliers from the operation of general competition law



# Competition Assessment Checklist

## Initial Screening: Checklist Question #4

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- Does the rule or regulation **limit consumer information or restrict consumer choice?**
- This could arise, for example, if a regulation
  1. Limits the ability of consumers to decide from whom they purchase
  2. Reduces mobility of customers between suppliers of goods or services by increasing the explicit or implicit costs of changing suppliers
  3. Fundamentally changes information required by buyers to shop effectively



# Competition Assessments

## Detailed Review

- The detailed evaluation would focus on the specific intervention and potential **quantification** of whether the rule or regulation might
  - Impose barriers to entry of new businesses
  - Force certain types of businesses to exit
  - Increase the prices of goods and services
  - Reduce product or process innovation
  - Significantly increase concentration in the relevant market
- Are any upstream or downstream markets affected?
  - If YES
  - Evaluate effects on the related markets
  - Initial review
  - Detailed review





# EXAMPLES OF COMPETITION ASSESSMENT



# Examples of Pro-Competitive Initiatives in Reviews of Existing Rules and Regulations

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- Australia Hilmer process
  - (already discussed earlier in the presentation)
- Greece – discussed here
- Mexico - ongoing
- Romania – finished 2016
- Portugal – ongoing
- Korea (KFTC) – discussed here



# Initiatives in Reviews

## Australia: National Competition Policy

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- Hilmer Report (1995)
- National Competition Policy (NCP) reform program
  - Thoroughly review existing legislation and where possible, revise to promote competition
    - Presumption: Laws that restrict competition should be changed, absent evidence to the contrary
    - Identify those laws that have an impact on competition
    - Over 50% of 1800 laws identified have been (or are being) reviewed
    - Instills culture of rigorous justification for new business regulation
    - Federal government pays states for quality of effort in revising regulations (0.1-0.2% of GDP used for incentive payments)
  - **Impact**
    - Growth rate increased by 1-1.75%



# Initiatives in Reviews

## Example of Greece: Four-sector review

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- Working with Ministry of Development and Competitiveness with OECD team that included staff of Hellenic Competition Commission
- Review of sectors
  - retailing,
  - food processing,
  - building materials and
  - tourism
- 11 months for main work leading to report release in November, 2013.
- Key results:
  - assessment of competition restrictions in laws and regulations
  - quantitative assessment of the benefits of reform, where possible
  - policy recommendations (329), including identification of required changes to laws and regulations
  - building capacities by Greek authorities.
- 80-90% of recommendations transformed into omnibus law that was passed by Greek Parliament in April, 2014.
- Remaining recommendations passed in late 2016 = 98% total



# Initiatives in Reviews

## Greece: Four-sector review

Issue	Annual Benefit	Number of provisions affected	Value to economy, €m
“Fresh” milk	€33m (consumer benefit/year)	2	<b>33</b>
Levy on flour	€8m-11m (value of levy/year)	1	<b>8</b>
Sunday trading	€2.5bn (annual expenditure), plus 30,000 new jobs	3	<b>2 500</b>
Sales and discounts	€740m (annual turnover)	9	<b>740</b>
Over the Counter pharmaceuticals	€102m (consumer benefit/year)	23	<b>102</b>
Marinas	€2.3m (annual turnover)	10	<b>2</b>
Cruise business	€65m (annual turnover)	4	<b>65</b>
Advertising	€1.8b (consumer benefit/year)	14	<b>1 800</b>
<i>Everything else</i>	???	263	<b>???</b>

**Total: €5.2bn**



# Initiatives in Reviews

## Korea: Book discounting rule

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- KFTC (competition authority and ministry) regularly performs competition assessments of new regulations using approach derived from Competition Assessment Toolkit
  - 100s of regulations reviewed every year
  - Suggestions made in about 5% of cases
  - Ministries often change proposal in response
- Example: Book discounting rule
  - Book discounts allowed up to 10% in value + a giveaway that could amount to less than 10% of value.
  - Ministry of Culture, Sports and Tourism proposes a modification to law that would eliminate possibility of giveaways (thus getting rid of almost half of the potential discount) allegedly helping authors or publishers to grow (2010).
  - KFTC objects because impact will be to restrict innovative discount outlets, including internet ones, concentrating sales in stores that set high prices.
  - Ministry drops the proposal.



# Competition Assessment

## Example: Setting Standards in Medical Practice

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- **Dental Association** sets rules and regulations related to
  - Certification of dental colleges
  - Capacity of the dental colleges (number of students)
  - Occupational licensing policies
    - Rigor of the examinations to practice in a State or region
    - Statutory provisions such as waiting periods
  - Limiting the ability of dentists to advertise and compete
- Stated objective: ensure quality – e.g., safety, consistency, reliability – of the service provided
- Competition assessment:
  - Assess impact of standards on market outcomes related to competition
  - Revise to stop unnecessary restrictions on competition



# Competition Assessment

## Example: Setting Standards in Medical Practice

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- Results from running the checklist screen?
- We get a clear “**yes**” answer to two checklist questions
  - It does “limit the number or range of suppliers”
    - Due to licensing and statutory provisions
  - It does “limit the ability of suppliers to compete”
    - Due to implicit or explicit restrictions on advertising, marketing and price competition
      - Limits to advertising reduces the **cross-price elasticity** between the competing service providers
- Checklist can be implemented in an expedited manner
- Key issues
  - How high do the standards need to be to ensure quality?
  - Are the existing standards unduly high?



Thank you

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[www.oecd.org/daf/competition](http://www.oecd.org/daf/competition)

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