

Competition Policy

Rationale and Scope in Modern Developing Economies

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Outline

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- Components
- Methodology
- Economic impact: Australian case
- Build up to sound enforcement of competition policy in developing countries: CUTS work on India
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Definition

- Broadest sense: refers to all government policy and legislative action that has implications for the nature and extent of competition in the economy
- Narrow sense: distinction is drawn between policy and direct legislative action with the former referring to 'competition policy' and latter to 'competition law'
- This presentation would deal with 'competition policy' in the narrow sense
- A vital component of economic reforms in developing countries

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Origins of Competition Policy

- Inspired by the Hilmer Committee Report of August 1993 to the Australian Government
 - Motivated by the realisation that competition needs to be enhanced in all sectors of the economy to
 - augment productivity and competitiveness
 - promote consumer welfare through lower prices and higher quality
- The Report referred to 'competition policy' in the broader context while clearly making the distinction between 'competition law' and other components
- Emphasised that promotion of competition had to be moderated by public interest considerations: employment, income distribution, gender equality etc.

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Components of Competition Policy

- Reforming sector regulations which restrict competition directly
 - Price control
 - Limitations on entry
- Reforming structure of sectors which have traditionally been public monopolies to facilitate competition
 - Separation of natural monopoly components from potentially competitive segments; and promotion of competition in the latter
 - Establishment of independent regulators: government incumbents do not get an unfair advantage over potential entrants
- Provision of access for all potential competitors in a sector to essential facilities defined as
 - Non replicable facilities essential for marketing/production

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Components of Competition Policy (2)

- Enhancing competition in markets/production through a review of macroeconomic and sectoral policies/regulations
 - Examples of relevant policies
 - labour policy (e.g. reservation or affirmative action; labour standards)
 - industrial policy (relevant issues – provision of infrastructure and finance, reservation for small units, incentives and exemptions for industrial development)
 - trade policies (e.g. tariff and non tariff barriers)
 - sectoral procurement and outsourcing policies/practices
 - Examples of relevant legislations
 - sectoral anti monopoly legislations
 - legislative provisions affecting competitive neutrality
 - provision of interconnectivity in network based utilities

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Competition Policy: Methodology

- Implications for competition of any existing/proposed policy/legislation are compared to other implications related to the public interest
- Continuation/introduction of existing/new regulations is based on a process which weighs the two sets of implications and the implied net benefit

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Economic Impact of Competition Policy: Australian case

- Australian Productivity Commission carried out the research – study released in 2005
- Findings
 - Competition policy contributed to productivity and price changes in key infrastructure sectors in the 1990s: electricity, gas, urban water, telecommunications, urban transport, ports and rail freight
 - Served to increase Australia's GDP by 2.5 per cent, or \$20 billion.

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Preparation for Sound Enforcement of Competition Policy: Features

- Creating competition culture among common stakeholders
- Developing appreciation for competition issues in different sectors through competition assessment/market studies etc.

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Build up to Sound Enforcement of Competition Policy in Developing Countries

CUTS contribution in the Indian context

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CUTS Market/Sector Studies in India: Findings

- Domestic liberalisation and institution of independent regulators has boosted competition – however, problem areas remain as highlighted below
- Agricultural markets: monopsonistic intermediaries between farmer and consumer have led to depressed/elevated prices at the farm/retail level
 - market mechanisms that bring farmers closer to consumers are needed

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CUTS Market/Sector Studies in India: Findings

- Infrastructure sector: lack of competitive neutrality across public and private suppliers
 - Telecom
 - » Expensive delays in providing clearances to private operators
 - » Different licensing requirements respectively for the government operator and private players
 - » Government operator choosing to not provide interconnectivity to private players
 - Electricity
 - » Ad hoc and politically motivated tariff policy has deterred private investment and impaired competition
 - Transport sector
 - » Private sector investment in ports only allowed selectively
 - » Government monopoly in container transport through the *Container Corporation of India*
- Too much regulation of entry into the non vocational education sector coupled with inadequate governance has led to sub-optimal outcomes in regard to quality and ability to cater to demand/human capital needs

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Potential Competition Distortions: Indian Highlights

- Imposition of antidumping duty
 - Imposed on, among others, radial truck and bus tyre imports from China and Thailand
 - When imposed correctly prevents dominance by foreign players
 - When imposed incorrectly curbs competition
 - Has positive/negative impact on domestic suppliers (rubber industry)/ end users (consumers, automobile industry): subject to manipulation through pressures from gainers/losers
 - Need to study costs and international prices to determine whether imposition is appropriate or not
- Other potential distortions
 - Safeguard duties demanded by well organised producers (aluminium products and antibiotics) with consumers and end users standing to lose
 - Government subsidy of PSUs (petroleum and civil aviation)
 - Anti monopoly policy which restricts participation by powerful but efficient players (port sector)

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Conclusions

- Competition policy is needed to institutionalise competition in the economy
 - Demonstrated benefits: enhancement of productivity and competitiveness; higher quality and lower prices facing consumers
 - Caveat: competition pursuit has to be tempered by consideration of other dimensions of public interest
- Given growth implications, competition policy is a must for developing countries
- Preparation for enforcement should involve building up of competition culture, market studies
- CUTS efforts in this regard highlight vast scope for correction of distortions through systematic implementation of competition policy

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Thank You

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