



INTER-AMERICAN DEVELOPMENT BANK
SUSTAINABLE DEVELOPMENT DEPARTMENT
OFFICE IN EUROPE



**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**
COMPETITION DIVISION

**FOURTH ANNUAL MEETING
of the
LATIN AMERICAN COMPETITION FORUM**
11-12 July, 2006

San Salvador

CALL FOR COUNTRY CONTRIBUTIONS

1. Countries participating to the Latin American Competition Forum are invited to prepare written contributions for:

- Session I. The Relationship between Competition Authorities and Sectoral Regulators in Latin America;
- Session II. Competition Policy in the Financial Sector in Latin America;
- Session III. Using Competition to Lower the Cost of Remittances.

2. Country contributions should have a maximum of 5 pages and be drafted preferably in English (or else in Spanish) to allow their timely use in preparation of LACF discussions. The contributions should be sent to: Regina Vargas [regina.vargas@gmail.com] by 20 June at the latest.

SESSION I. The Relationship between Competition Authorities and Sectoral Regulators in Latin America

1. Content of the background paper

3. The paper prepared for session I will focus on the relationships between competition authorities and sector regulators. It will describe the differences in relationships inherent under a variety of different scenarios and then provide insights and examples of how these relationships can be improved through coordination of decisions, competition advocacy, and improved sharing of perspectives between the agencies.

4. In particular, this paper will explain that the appropriate interaction of competition policy and agencies with sectoral regulation policy and agencies is dependent on the stages of development of the respective policy areas and on conditions within the markets currently subject to regulation. It will argue that cooperative beneficial interaction is more likely to arise in a situation in which sectoral regulation is introduced subsequent to competition policy. Conversely, when the respective policy areas are well-

developed and responsive to technical change, there is generally less need for the competition agency to try to improve the performance of the sector regulator. Other situations offer potential benefits from interaction, such as when economic performance in the regulated markets is lagging, the opportunities for policy improvements in the regulated sector abound, technologies are changing in the regulated markets and the products in regulated markets are increasingly close substitutes for products in unregulated markets, or converging to products in other regulated markets.

5. Nonetheless, the paper will advocate that whatever the respective stages of development, there are identifiable means that are likely to help a competition agency improve its interactions with sector regulators through coordination in the case of overlapping jurisdictions or through competition advocacy in the case of only distantly related jurisdictions.

2. Questions for countries

6. Countries are invited to address the issues identified in the above description of the content of the background paper. In addition, they are invited to provide responses to the five questions below with the details needed for a clear understanding of their country situation. Short descriptions of one or two cases would help understanding the actual relationship between the competition authority and the different sectoral regulators.

How competition policy interacts with sector regulation policy in your country?

How your competition agency interacts with the different sector regulators?

Have you appreciated any differences in the successfulness of the interaction between your agency and regulators across sectors?

If there is any differences, do you think that they can be explained by a particular institutional development starting point?

What are your best and worst experiences in interacting with sector regulators in your country?

SESSION II. Competition Policy in the Financial Sector in Latin America

1. Content of the background paper

7. The paper prepared for session II will focus on the scope and role of competition law in banking, banking mergers and payment cards. As with many sectors, the banking sector often argues that it should not be subject to general competition law, as it has particular needs, notably prudential regulation, that are inconsistent with strong competition. This paper will explain the benefits that arise from application of a general competition law to a sector by a non-sectoral regulator, such as a competition authority, and cite international legal precedents for this approach.

8. The paper will pay particular attention to evaluation of bank mergers and payment card issues. The primary markets of concern in bank mergers will be identified, such as consumer banking and small business loans. An approach for assessing competition in these areas will be discussed, with examples from Latin America, based on switching costs and availability of local facilities and information. The paper will discuss relative roles of banking regulators and competition authorities in banking mergers and will argue that competition authorities have the competencies necessary for banking competition reviews, but not for prudential reviews.

9. Regarding payment cards, the paper will examine the competition issues that have arisen in Latin America for payment cards, where there have been competition law investigations and cases in a number of countries. The paper will seek to identify the key competition issues for payment cards in Latin America. The paper will further identify the role played by competition authorities, courts and financial regulators for resolving these competition issues with the argument being that competition authority action is largely a result of regulatory inaction; competition authority powers are an essential supplement to regulation in the case of regulatory inactivity.

2. Questions for countries

10. Countries are invited to address the issues identified in the above description of the content of the background paper. In addition, they are invited to provide responses to the five questions below with the details needed for a clear understanding of their country situation. Short descriptions of one or two cases would help understanding the actual scope and role of competition law in the sector.

Is the financial sector in general and the banking sector in particular excluded from your country's competition law?

What is the role of your competition authority and any regulators responsible for the financial sector, in promoting competition?

Are bank mergers treated differently from other mergers? Who is the body in charge of implementing the merger control? Is there any formal or informal interaction between the competition authority and the regulator in the process?

SESSION III. Using Competition to Lower the Cost of Remittances

1. Content of the background paper

11. Migrants' remittances provide essential support to millions of families in Latin America and the Caribbean. Of the \$167 billion in global remittances flows in 2005, more than \$50 billion was sent to the region from the more than 25 million adults born in Latin America and the Caribbean. These funds are generally sent from the United States, Spain and Japan but other destinations in Europe, Latin America and the Caribbean have rapidly gained importance. Until recently, these funds have gone mostly unnoticed outside the sending and receiving families as migrants often live undocumented in their host countries.

12. Even so, since the early 1990's the flow of remittances sent home has grown rapidly, as has public attention to the phenomenon. Latin America and the Caribbean receive the largest volume of these flows worldwide. Mexico (\$16.6 billion), Brazil (\$5.6 billion) and Colombia (\$3.9 billion) are among the largest recipients in 2004, but these funds comprise more than 10% of GDP in countries such as El Salvador and the Dominican Republic.

13. These funds represent a vital source of foreign earnings for these countries, often exceeding both foreign direct investment and aid. Remittances to Mexico alone were equal to the entire US aid budget to all developing countries in 2004. More importantly, remittances are a survival tool for many families. Research indicates that 60%-85% of these flows are devoted to consumption for the support of basic needs. These funds go directly to the people who need them without getting mired in official aid bureaucracies.

14. With increased focus by policymakers, the private sector and civil society, the remittances industry has become far more competitive in most corridors. New players, services and technologies have helped to bring costs down although on average they remain high at 7%. Information also plays an important role in competition. While regional governments are working with the private sector to collect and disseminate better data, only half to two-thirds of remittances globally are likely included in current estimates. Regulations on both the sending and receiving side have created additional barriers. The study to be presented will address these and other key drivers of competition in the remittances industry in Latin America and the Caribbean.

2. Questions for countries

15. What aspects of financial sector or other regulation currently impact the remittances industry (i.e., foreign exchange, banking, microfinance, housing, interest rates, anti-money laundering, bank secrecy, telecommunications, etc.)? This may also include any regulations that might impact informal transfer of money such as customs enforcement. Please identify and describe the regulations that apply. Do any regulations act in a way that significantly limits competition or raises prices?

16. In what ways has your government addressed the remittances industry? Which institutions have become involved and what roles do they play? In particular: (a) Has the competition authority played a role in this area? (b) Have financial regulators played a role in this area? (b) What statistics are collected about remittances, how is that data collected and what dissemination activities are implemented?

17. Please describe your country's experience of migration and remittances, which may include, among other topics, sending regions, destinations, amounts sent/frequency, incomes of senders/receivers, and macro quantitative statistics (remittances/GDP, remittances/foreign direct investment, remittances/official development assistance, remittances/key exports).