Global Forum on Competition

COMPETITION AND COMMODITY PRICE VOLATILITY

-- Summary of Discussion --

16-17 February 2012

This Summary Record is circulated to Delegates FOR INFORMATION.
SUMMARY OF DISCUSSION

By the Secretariat

1. Introductory speeches

1. The Plenary Session of the Global Forum was preceded by opening remarks by the OECD Secretary-General, speeches by keynote speakers, and introductory comments by the Chairman of the OECD Competition Committee.

1.1 OECD Secretary-General, Angel Gurría

2. Mr Gurría underscored the importance of pro-competition reforms to help economic recovery and promote long-term strong, sustainable, and inclusive growth. Competition is good for consumers, good for the economy and good for fostering clean government. The crisis has reduced potential output by 3%, and pro-competition reforms can help make up the shortfall by removing barriers to entry and creating a level playing field for entrepreneurs.

3. Volatile commodity market prices are an important issue. Higher food prices drive millions into poverty. Governments have to act, but they need good advice. They may be tempted to impose price controls on food, for example, but this will discourage investment in extra supply.

1.2 WTO Director-General, Pascal Lamy

4. Mr Lamy underscored that strong competition policies contribute to rising living standards for all, and play a crucial role in ensuring that the benefits of trade opening are not undermined by collusion between firms or other anticompetitive practices. Although commodity price volatility undoubtedly reflects changing climate conditions and rapid growth in emerging economies, it is important for credibility that these markets be monitored for anticompetitive practices. Market forces must work within an appropriate set of laws, policies and institutions so that citizens retain confidence in globalisation and the market economy. Major competition agencies have acted successfully against primary product cartels, but the penalties imposed have been low relative to the harm they do. There are important interactions between private anticompetitive conduct and government measures in the primary product sector. The latter can involve anticompetitive subsidies, international commodity agreements, price regulations or monitoring, and anticompetitive measures that limit market entry. Neither trade measures nor competition measures alone can deal with such issues, a synergistic approach may be needed.

1.3 World Bank Vice-President, Otaviano Canuto

5. Mr Canuto emphasised that the topic is important because primary products contribute to meeting basic needs of people all over the world. Globalisation is raising new competition issues, as value chains in the transformation of commodities are characterised by imperfect competition, including international cartels. What matters here is whether buyer power in these chains leads to higher consumer prices, whether cost savings are passed on. Competition problems are more likely to arise in mineral and metal markets than in agricultural products, because the former are dominated by a small number of large firms, often
with links to the State. But the food price hikes in recent years, and the current low stock levels, underscore the need in low income countries for greater competition in their agribusiness supply chains. Other distortions can arise because of subsidies, transfers to state-owned enterprises, opaque licensing systems and other barriers to entry. A World Bank report on sub-Saharan Africa highlights further problems that limit competition in the sector, while Kenya is a good example of the benefits to countries that liberalise their fertiliser imports. Profit margins fell and use of fertilisers and crop yields increased. Liberalisation of the maize market in that country also led to lower prices.

6. Buyers of agricultural products in developing countries, which can be state-run, often possess buyer power, but they may also supply credit and seeds to the small farmers. Eliminating them sometimes prevents farmers from taking advantage of the higher export prices they might enjoy. A level playing field is needed, and the implementation of pro-competition sector policies that eventually eliminate price controls, minimise state aids, and get rid of sector-specific barriers to entry. The competition authorities should play a major role in monitoring the behaviour of dominant players and advocating for liberalisation and opening key markets to competition.

1.4 **OECD Competition Policy Committee Chairman, Mr Frédéric Jenny**

7. Mr Jenny said that the previous speakers had usefully raised the topics of this Global Forum on Competition, noting that there are links between competition, growth, poverty and international trade. There are 4 challenges when looking at commodity prices. The first is reconciling the analysis of price levels with that of price volatility – or static and dynamic. The second challenge is coherence of economic policies. Various factors contribute to price instability, and also to prices higher than competition would produce. While it is true that climate affects agricultural production, for example, and one can do little about that, policies can exacerbate the effects. We must consider economic policies in the broad sense as well as their interactions in order to deal with problems of volatility. The third challenge consists in the limits to international policies. They do not forbid certain types of strategic national policies that increase volatility or price levels. Similarly, competition laws do not always allow the sorts of co-operation that would help eliminate some factors that contribute to price volatility. The fourth challenge is the links between the implementation of competition policy – the daily activity of the competition authorities around the table – and competition policy and economic policy in general. Indeed, it was this challenge that persuaded us to launch this forum, the difficulty that the competition authorities are faced with when politicians ask what they have done to stop commodity prices rising. When they reply that it might not be a competition problem, the response can be that they are useless and the government will re-introduce price controls. In this difficult dialogue, the lack of response by the competition authorities arises from the difficulty of formulating a reply that will be listened to, because it has to be both subtle and convincing about the importance of competition, while explaining that competition policy cannot always solve every problem.

8. He concluded by thanking the nearly 100 national delegations and more than 15 international organisations and development banks that were participating in the forum. A long-time goal of the Global Forums has been to establish a true dialogue between member and non-member countries, by choosing themes which are of mutual interest. He was struck by the fact that just as the US competition authority was sometimes convoked by their political masters to ask what they were doing about high petroleum prices, the competition authorities of some non-member countries were similarly asked what they were doing about high bread or cereal prices. So it is not a problem that depends on the size of the country, but a more general one, and it is in our interest to try and develop a coherent discourse, and also see what can be done.
2. Plenary session: sources and effects of, and responses to, commodity price volatility

2.1 Introduction and presentations by selected panel speakers

9. The Chairman began by welcoming the Delegates from 90 countries and 15 International Organisations. Twenty nine written contributions had been received, and the discussion would be guided by the presentations from the panel of experts: Carmel Cahill (Senior Counsellor, OECD Trade and Agriculture Directorate); Gustavo Lagos (Professor, Catholic University of Chile); Scott Davenport (Executive Director, NSW Department of Trade and Investment, Australia); Bibek Debroy (Professor of Economics, CPRIMI, India); Torbjörn Iwarson (Head of Commodities, SEB Merchant Banking, Sweden); and the Chairman himself, Frédéric Jenny. The Chairman recalled that there are several reasons why commodity prices can be high and/or volatile. Disequilibrium between supply and demand is one, with sudden surges in demand or negative supply shocks resulting in price spikes. Stocks normally play a buffering role, but if they are exhausted, prices react vigorously to slight disequilibria. Another influence can be vertically integrated supply chains, or monopolistic elements, which reduce price elasticities. Transnational commodity cartels, whose actions may not fall within the jurisdictions of either the exporting or importing countries, will result in high and possibly volatile prices.

10. The Chairman explained that the plenary session in the morning would explore all these factors, followed by the impact of price volatility on countries and then the role for the competition authorities. There would be three break-out sessions at the beginning of the afternoon, after which the chairs of those sessions would report back to the reconvened plenary session. The OECD Secretariat would then draw lessons from that day’s forum meeting, and propose steps to be taken as a result.

2.1.1 Policy report by international organisations

11. The Chairman then called on Ms Cahill to present the findings of the report “Price Volatility in Food and Agricultural Markets: Policy Responses”, a collaborative effort by the OECD’s Trade and Agriculture Directorate and nine other international organisations (IOs) at the request of the G20 leaders at their November 2010 summit meeting.

12. Ms Cahill showed¹ that the 2007-2011 episode of food price volatility was neither unique nor exceptional: average agricultural commodity prices were far higher and more volatile in the early 1970s, for example. Indeed, individual agricultural prices are characterised by volatility. There are two reasons why this is a concern. Even if the volatility is around a relatively stable average level, it can deter investment in new supply and hence lead to higher average prices in future. Volatility combined with high average prices makes planning difficult and has a negative impact on poverty. Whereas in richer countries, food accounts for less than 15% of the average household budget, that swells up to 70%-90% in some poorer countries.

13. Government reactions to this issue include both trade and domestic policies. Producing countries faced with high prices at home may restrict or tax exports, even though the reason for high prices is global rather than domestic shortages. Research shows that in recent years, 33 countries introduced 87 measures along these lines. Such export-restricting actions can have a major impact on prices, and the recent spike in rice prices is believed to have resulted from export curbs in some countries. Importing countries tend to manipulate import barriers in a procyclical manner, reducing tariffs and raising quotas when prices are high, and vice versa. Both governments and households can resort to panic buying, resulting in higher volatility and sometimes lower longer-term supply because of deterioration of the stocks. In this context,

speculative purchases on commodity markets are often blamed for price rises, but to the extent that speculators correctly estimate that prices will be even higher in future, when they intend to sell, they are a stabilising force. Governments may also subsidise agricultural production in the interest of security of supply, although this damages producers in lower-cost countries. Overall, OECD countries seem to be the worst offenders as regards official support to agricultural producers, although less so than 20 years ago. The subsidies and mandates for bio-fuel production have resulted in a less elastic demand and have driven up the prices of certain food commodities, with major impacts on the poorest segments of the world’s population.

14. The policy recommendations were threefold: short-term market information needs to be improved; more information and transparency in futures and over-the-counter (OTC) markets is desirable; subsidies and mandates on bio-fuels should be removed; and discipline needs to be strengthened in all trade-distorting measures, including domestic measures that distort trade. To deal with the consequences of volatility, the IO report suggests improving emergency reserve stocks, permitting the free movement of humanitarian supplies and improving their financing, as well as contingent financing for poorer importing countries, and developing market-based risk management options at the household and country levels. History shows that buffer stock mechanisms do not work and can be very costly. In all cases, policies should focus on aiding the poorest people, who suffer the most from high and volatile agricultural prices.

2.1.2 The workings of the international commodity markets

15. The Chairman next called on Mr Iwarson to discuss financial flows in primary commodity markets.

16. Mr Iwarson showed2 that the value of commodity-based financial assets under management has enormously increased over the past two decades and especially in the last 5-10 years. Gold and other precious metals currently account for about 80% of the total. Investment in commodity assets has become popular because the returns are similar to equity, but not correlated with them. He emphasised the differences between informed speculation, “cornering the market” and creating rents. Speculation and speculators are often accused of creating volatility, too high or too low prices, and shortages or surpluses, but to the extent that speculators profit by buying when prices are relatively low and selling when they are relatively high, they provide a stabilising function. In addition, since they are the commodity market counterparties to hedgers, they permit producers and consumers to insulate themselves from uncertain future prices. Statistical analysis shows that the correlation between trading flows on the oil and major non-oil markets and price movements is essentially negligible, whereas there is a strong correlation historically between the growth of the share of the global population with moderate income levels, between $2000 and $13000, and the level and volatility of commodity prices. Quickly rising incomes translate into rising demand, lower stocks, lowered elasticities, and more volatility. His conclusion is that the role of financial flows in the commodity markets in creating high and unstable prices is very limited, whereas that of rising incomes, especially in Asia, does not get the attention it should.

2.2 Sources of volatility: Changes in supply and demand

17. The Chairman agreed that speculation is not an important source of volatility compared with trade policy, regulation and disequilibrium between supply and demand. He then asked a Kenyan delegate to describe the findings of the competition authority there in their study of the domestic market for maize, a staple in the Kenyan diet.

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2.2.1 The Kenyan maize market

18. A delegate from Kenya explained that the competition authority had conducted a market study in 2008 of the market for maize, whose prices had sharply increased. There were several reasons why maize prices had risen sharply: political unrest in 2007 that resulted in the destruction of some stocks and interruption of planting; drought; population growth that had led to increasing sub-division of arable land and soil exhaustion; higher fertiliser prices; hoarding by farmers and their unwillingness to sell to the National Cereal and Produce Board (NCPB) at what they considered to be too-low prices; and a lack of storage facilities. Imports were hindered by bureaucratic delays, insufficient finance available to the NCPB, the monopoly importer, and congestion at the main port. Rising demand for maize by the BRIC countries for conversion into bio-fuels in any case made imports expensive. Transport costs rose because of higher oil prices.

19. The 2008 study was launched after media reports that three families controlled 75% of milling firms as well as imports, transportation and distribution of maize. The authority found that milling was cartelised by the millers’ trade association, membership of which was limited to 50 firms by virtue of being registered as a private company. Some mergers had not been reported to the authority. The authority requested the Association to register itself under the Societies Act and delete some contentious clauses in its Articles. The lessons learned from this episode include government encouragement to households to diversify their diets, discouraging population growth, encouraging irrigation, improving transportation infrastructure and boosting the finances of the NCPB. Farmers have been asked to form cooperatives, to benefit from economies of scale in purchasing fertilisers and marketing their produce.

20. The Chairman noted that lack of adequate transportation facilities can lead not only to volatile prices, but also local famine. He then asked the Turkish delegation to report on oligopoly behaviour in the meat sector in that country.

2.2.2 The Turkish meat market

21. A delegate from Turkey explained that the Turkish Competition Authority (TCA) had acted on complaints that the meat producing sector, regulated by the Ministry of Agriculture, was cartelised, resulting in high prices. The TCA found no evidence of systematic anti-competitive behaviour there, the main problems seemed to stem from structural and institutional problems throughout the supply chain, exacerbated by declining herds of cattle and sheep, and rising demand worldwide. But these did not raise competition issues. In response to a question from the Chairman, the delegate said that the structural problems had been reported to the appropriate ministries, but there is confusion in Turkey concerning the mandates of the competition authority and the sectoral authorities.

2.2.3 The market for vegetables in Chinese Taipei

22. A delegate from Chinese Taipei reported on the problems in the seasonal vegetable sector where there is surplus production and low prices in winter and shortages in summer. Recently the supply swings were exacerbated by the severe flooding. The Fair Trade Commission (FTC) was asked to investigate to see if there were competition issues. The FTC routinely monitors prices in vital foodstuff markets, comparing them with global prices, and it is to be expected that faced with a severe supply shock, prices will react sharply. Nevertheless, violations of the Fair Trade Act in such conditions cannot be ruled out. The FTC made a comprehensive survey of the production structure, marketing channels and the trading system in vegetable markets. In co-operation with the Council of Agriculture, they improved their information on supply and demand in major producing and consuming areas. They found that although the very large numbers of independent producers and of consumers preclude any anticompetitive behaviour, the upstream distribution channel at the wholesale level was highly concentrated, resulting in harm to both...
farmers and consumers. As in many other countries, exemptions are granted in agricultural production to better enable agricultural cooperatives to negotiate prices. The lessons to be learned are that distribution should be improved, and easing imports would help smooth supply shocks. More information needs to be collected and disseminated so that consumers can see where to pay reasonable prices for their vegetables.

23. The Chairman next asked the EU delegate to explain their 2008-2009 initiative called “a better functioning supply chain in Europe”, which distinguishes between perishable and non-perishable foodstuffs.

2.2.4 The EU food supply chain

24. An EU delegate said that a task force had been set up to analyse the functioning of the European food supply chain after the price hikes of 2007-2008. They surveyed food producers, processors, traders, wholesalers and retailers in order to identify competition concerns. The market for non-processed foods is characterised by many producers and several layers of intermediaries. There is little evidence of cartelisation and the competition issues are related to joint commercialisation schemes. These can raise efficiency by cutting out some intermediaries, but possibly also lead to price fixing. The scope for anticompetitive behaviour is greater in the processed food sector, where products are stockable and where the major retail chains have market power, but so do also the major producers, especially those of large brands. Whether this structure results in lower or higher prices for consumers depends on particular conditions and barriers to entry in individual countries and regions. There are also grey areas, such as cereals, which are non-processed, but can be stocked. There is little evidence of cross-border cartelisation in the food supply chain and it is the national competition authorities that play the major role, assisted by the European competition network. In response to a question from the Chair, the delegate said that the initiative, which is now being finalised, was intended to map issues and exchange lessons across countries. Most enforcement actions have been dealt with by the national competition agencies, and a few by the Commission.

2.2.5 The Romanian food supply chain

25. Romania, which had participated in the EU initiative described above, had also reported issues in the food supply chain. A delegate explained that the competition authorities had investigated the bread and milk sectors, in which prices were more volatile at the beginning of the chain, and much less so at the end. The main reasons are the very fragmented producer structure with a large number of small farms; the buying power of the processing firms (in which farmers own no shares); and the inefficiency of the processing sector combined with the need to adhere to EU regulations, which has made imports more competitive. Faced with asymmetric bargaining power, farmers and producers in general are at a disadvantage. Consumers have not suffered too much because of competition at the retail level. The Romanian Competition Council also found that some regulations reduce productivity growth, for example establishment rules for retail outlets. They have been discussing eradicating such regulations with the ministries of agriculture and the economy. A conference in 2010 discussed supply-chain issues and possible solutions. Their policy recommendations, which do not have legally binding power, are to encourage small farm units to enter into joint commercialisation and production agreements, provided that they do not lead to price fixing.

26. The Chair asked Morocco to discuss the measures taken by the authorities there to limit the impact of rising prices for basic food products, whether the competition authority was consulted, and what were the results.
2.2.6 Food price controls in Morocco

27. A delegate from Morocco explained that, as a non-oil producing developing country, Morocco had been hit hard by rising cereal and oil prices, and the government had taken the decision to subsidise certain basic foodstuffs. The budgetary cost has been high: between 1.5% and 5% of GDP, and between 6% and 16% of the state budget. But inflation had been contained at less than 1% rather than the estimated 4.5% in the absence of subsidies. In addition, wages and salaries have been raised to offset higher living costs. As a result, the public sector deficit is estimated to be a high 6.5% of GDP, considerably reducing the new government’s room for manoeuvre. The competition authority’s advice is consultative only, they have no power to intervene directly, and they were given too little time to make a thorough analysis. They gave a green light for a temporary 4-year extension of the subsidy measures, warning the government that prices should be market based, and that all interventions reduce efficiency. They also encouraged the government to take advantage of this period to reassess the utility of subsidies and price controls.

2.3 Sources of volatility: Domestic anticompetitive regulations

28. The Chairman called on Professor Bibek Debroy to discuss how domestic regulations can distort competition and lead to price volatility.

2.3.1 The food market in India

29. Professor Debroy emphasised that supply chain problems are often the result of government regulations, with India as an illustrative example. Private investment in agriculture, including FDI, is often forbidden, for example. Food security policies have led to higher and more volatile prices. There are also cross-border measures, in the form of tariffs, quotas, export subsidies and controls. State trading monopolies for example in cereals and dairy products in China, Indonesia, India, Mexico and Pakistan distort the markets. Free cross-border trade in principle reduces volatility, but distortions have increased, so thinner markets have resulted in more volatility. In the particular case of India, domestic output markets are also distorted via legislation that controls production, stocking and distribution. There is legislation that forbids direct selling between farmers and producers, and because India is a federal country with differing levels of indirect taxes, environmental laws and motor vehicle legislation across the states, there is not even free trade in agricultural products within India. Markets for ownership or renting of land are not open, there are restrictions on creating futures markets and retail trade has not generally been opened up to competition. Hence for a large country like India, cross-border measures are only a small part of the jigsaw of government measures that prevent competition. A committee was set up a while ago to assess the potential gains from reforming such legislation using a modelling technique. One can quibble about the details, but it is clear that there are substantial welfare gains to farmers and consumers from harmonising and integrating markets.

30. The recommendations are to invest in rural agriculture, reduce dis-intermediation, and move away from consumption subsidies. Be vigilant when reforming regulations on the output side, because that can be followed by abuse of dominance and price fixing. On the input side, one also needs to look carefully at the markets for pesticides, herbicides, fertilisers and agro-chemicals. One should not focus too narrowly at the end-points of the chains, for example the market shares of the fertiliser companies, one needs also to look at the distribution chains. For both inputs and outputs, that is where the real anticompetitive policies exist.

31. The Chairman then invited the Lithuanian delegation to explain their actions when faced with a regulatory requirement in the oil industry, which the authority felt was increasing the volatility of oil prices.
2.3.2 Storage of oil in Lithuania

A delegate from Lithuania explained that when their oil refineries were being privatised in the late 1990s, the government restricted oil storage to within Lithuania to raise the selling price of the refineries. But the storage facilities were inadequate, and the competition council complained that this was raising the costs of storage. They brought a case against the Ministry of Energy and proposed allowing oil storage abroad, for example in Latvia. The government is now considering the possibility of storing 100% of oil requirements abroad, allowing companies to store oil where they choose. This is a good example of both enforcement and democracy. The result may be to reduce the price of oil by a few cents.

2.4 Sources of volatility: International cartels

2.4.1 The potash cartel

32. At this juncture, the Chairman noted that the recent interventions showed that public interventions can raise prices and volatility, and he himself acting in a personal capacity would present a case study of the internationally cartelised market for potash. Potash is widely used throughout the world as a fertiliser, but with output mostly concentrated in Canada and Russia, which together account for 65% of world market supply. The issue here is not so much public intervention as lack of it. Mr Jenny illustrated his case study with a PowerPoint presentation.

33. The Potash Corporation of Canada is the largest producer, and organises sale prices and volumes outside the US and Canada via its marketing arm, Canpotex, a jointly-owned subsidiary with the other major Canadian producers, Mosaic and Agrium. “Market discipline” is relied upon to control the volume of sales in the US and Canada, where any cartel action to control prices would be illegal. In Russia, the major producers Silvinit and Uralkali recently merged, and the latter and Belaruskali sell through the same agency. The Canadian and Russian producers together account for 70% of world supply, and the major consuming countries are China, India, Brazil, Malaysia and Indonesia. In the past few years, the Russian producers have followed the Canadian example, tacitly or explicitly colluding with them on production levels to keep prices high and have openly said that this makes for much better business.

34. Historically, world potash prices were around $100 per ton but in 2007-2008, the two groups restricted output and prices shot up to over $800 per ton, well above their target range of $500-$600. At the time of writing, prices are around $480 per ton. In January 2012, Potash Corp announced that they would cut production by 10%, and the other producers in the cartel also said they would cut back by 10%, rather than try to gain market shares at Potash Corp’s expense. The potash cartel is an extreme example of a successful cartel that continues to exist because its actions are not illegal in the exporting country, while the competition authorities in the importing countries have no jurisdiction.

35. The international mining company, Broken Hill Proprietary, made a hostile takeover bid for Potash Corp in 2008. They said that if their bid was successful, they would leave the cartel. The Canadian government refused authorisation for the takeover after the Canadian Conference Board examined the probable impact on prices if the new owner did, or did not, continue to operate in the cartel. If Potash Corp broke ranks and the other producers followed, prices would likely fall back to a little over $200 per ton, rising again towards $500 by 2020 as capacity constraints cut in. If the international cartel persisted, prices would remain above $600 per ton, rising to $730 per ton by 2020. The Canadian government rejected the bid on the grounds that it did not “provide net benefits for Canadians” i.e. tax and royalty income would fall if the cartel was dissolved.

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36. If the cartel continues, the cost for importing countries will be high, of the order of $1 billion annually for India and China. In the case of India, this is broadly equal to the subsidy given to farmers to purchase potash, and which ends up as rent for the producers. China is believed to have successfully negotiated discounts from the cartelised price, and it is estimated that the extra cost for China, even with a 30% discount, is around half a billion dollars annually.

37. Because the potash cartel is an export cartel, competition law does not apply to it in Canada under Article 45 of the Competition Act. Nevertheless, when the BHP bid was announced, the competition agency did look into the proposed merger, and reached the conclusion that it would not oppose it. Two plaintiffs brought a case in the US on the grounds that the cartel was also raising prices there, but it was rejected because the court panel ruled that a cartel directed at other countries could not be proved to influence prices in the US. However, the Court agreed to review the case en banc (i.e. all the judges would re-hear the case, not a panel of them), and the Justice Department has filed an amicus curiae to say that the court’s interpretation was excessively narrow. India has decided not to use its competition law against the cartel, because it is wholly dependent on imports from them and thus cannot apply sanctions. Its only response is to stop buying, which it did in 2008 when there was the price spike and is doing now until July. The cost is reduced agricultural productivity, of course. In the case of China, they have some domestic production, but they did not use their competition law against the cartel perhaps because China has some export cartels of its own. It did threaten to disallow the Silvinit-Uralkali merger unless the cartel agreed to sell the quantities China wanted and at a discounted price.

38. Clearly there is a gap between trade law and competition law, and maybe in co-operation between countries in competition law. The conclusion is that a better multilateral framework on export cartels is needed, as is more co-operation between national competition authorities.

39. Leading on from this, the Chairman asked the representative from the Jaipur-based Consumer Utility and Trust Society (CUTS) to give their views on export cartels.

2.4.2 The views of CUTS

40. The delegate from CUTS said that an interesting dimension of the potash case was coordination, where India, China and Brazil worked together as a kind of buyers’ alliance to combat the sellers’ cartel. The problem is that agricultural seasons vary across countries and so it might not be possible to coordinate the buyers’ alliance. Secondly, what kind of international co-operation could be brought about, provided that countries are willing to recognise that export cartels do not promote global welfare? On the other hand, export subsidies in the US and Europe are also a major bottleneck for trade stabilisation. For example, the Indian trade minister once asked cotton importers why they did not import from West Africa, whose producers are adversely affected by the US export subsidies. The importers replied that their job was to buy at the lowest price, not to further welfare goals.

2.5 The effects of commodity price volatility on countries’ economies

2.5.1 Mineral and metal commodities

41. The Chairman said it was now time to turn to discussing the impact of commodity price volatility on countries’ economies, and invited Professor Lagos of Chile, one of the panel speakers, to discuss the effects of mineral commodity price volatility on the economies of countries that are dependent on such exports.
42. Prof. Lagos said that he would discuss the cases of copper, iron, aluminium and gold focusing on: the causes of volatility; the historical record of volatility; which countries have been affected; and some proposed solutions. The fundamentals of physical supply and demand for commodities are of course the underlying cause of volatility. Oversupply resulting from excessive investment characterised the 1990s, and is still the case with aluminium, whereas there is a shortage of copper at present. Gold is a financial commodity mainly, where production and consumption are not very important, and where demand can change into supply, for example with jewellery and central bank stocks. But financial markets also influence volatility. Much is said about speculation, but the view of experts is that it is difficult to differentiate between speculation, hedging, and long-term investments by pension funds. Financial markets anticipate the trends of fundamentals, and they act more rapidly than the fundamentals. Hence commodity trading on financial markets may result in higher volatility but also shorter price cycles, for example in 2008, although no models have been able to predict or explain the forces of financial markets on prices.

43. It is interesting that since the US stopped controlling the gold price, there have been two episodes of gold price spikes and volatility, one at the end of the 1980s and one currently, and that there is a high correlation between the gold price and the oil price. Each period coincided with conflicts or wars in Iran, Iraq or Afghanistan. So perhaps there is a limited length of time where the gold price and the oil price will be high.

44. If one looks at countries for whom mineral exports are more than 30% of the total, there are not many: Peru, Chile and Zambia for copper, Ghana for gold, and especially Guinea for aluminium. Other countries can be more important as producers, but their mineral exports are less than 30% of the total. For countries where mineral exports are important, price volatility can have a major impact on their exchange rates and trade balances. Four solutions have been tried: sovereign wealth funds; diversification of the economy; exchange rate intervention by the central bank; and cartels. The latter have not been successful. Diversification is a long-term strategy and has been successful in Chile and perhaps Peru. Central bank intervention can work in the short term but not in the long term. Building a sovereign wealth fund is apparently a good solution, but only Chile of the five countries mentioned above has built one. Such funds must be handled transparently and be accountable. Of course most oil-exporting countries have such funds. A final conclusion is that it is not only important to get the rents from mining activities, it is also important to spend them properly.

45. The Chairman then asked the Mexican delegation to share their experiences with price hikes and volatility in the market for maize, which is a staple of the Mexican diet, and of which Mexico is a net importer.

2.5.2 Agricultural commodities in Mexico

46. A delegate from Mexico explained that the price of maize had risen by 60% in 5 years, with a consequent major impact on consumers, especially the poor. Some reasons were structural, for example growing demand for bio-fuels, but there were weather-related factors and exchange rate movements. Price volatility is not by itself necessarily a competition issue, most of the price influences come from the international market for corn, but the competition authority has routinely investigated the structure of the tortilla sector for possible anti-competitive behaviour. Cartel-like behaviour by tortilla producers has been investigated and the competition authority found that municipal regulations can reduce competition between tortilla producers. They issued a public opinion, a type of advocacy instrument, sent to 100 municipalities asking them to avoid such regulations, for example minimum distances between tortilla sellers, or preference for locally grown maize.

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2.6 The role of the competition policy authorities

47. The Chairman said that the Mexican intervention was a good transition to the last part of the roundtable, namely what the competition authorities can do, and advocacy is certainly one of those things. He would start the discussion with the case of Senegal.

2.6.1 Limited options in Senegal

48. A delegate from Senegal said that the country had greatly suffered from volatile commodity prices, especially for basic agricultural products. Subsidies to compensate for high commodity prices had tripled in value in 2007. Volatility had certainly worried the government and consumers, but also the competition authority. Why? Because people feel that the role of the authority is to stop prices rising, and if prices rise, what is the authority doing about it? But the problem is that the Senegalese competition authority, like all others in the West African region, lacks the means to monitor and analyse commodity markets. Their role is to investigate anti-competitive behaviour. They tried to see in a general sort of way if volatility was a result of such practices. The questions that arise are what to do if the volatility arises from natural causes or from speculation, even though the experts say that speculation is stabilising. Should one do nothing? They thought not, because some of these markets are concentrated, and thus favourable to collusion. Advocacy was a possible response, and they had told the President that price manipulation was a possibility but in the end, self-sufficiency was the goal to be achieved via a policy of increased output and lower costs. Applying competition rules is always the best way to discourage anticompetitive behaviour. They feel that lack of information about market transparency both nationally and internationally is general, and better information is necessary.

49. The Chairman observed that the Senegal authority felt isolated, but there is one area where competition authorities are less so when faced with trans-national market issues, namely control of concentration. He asked the Japanese delegation to explain their experience concerning the impact of the proposed merger between BHP Billiton and Rio Tinto on the trade in iron ore.

2.6.2 Japanese review of Australian merger proposal

50. A delegate from Japan said that the two companies had twice entered merger discussions related to setting up a joint venture (JV) concerning their iron ore operations in Western Australia. The 2008 proposal was abandoned after review by the JFTC and other competition authorities, but they re-opened the question in 2010. Since Japanese steel producers rely entirely on imported iron ore, and Australia is a major source, the JFTC reviewed the potential impact of such a JV on the global sea-borne trade market. Since the companies are located outside Japan and have no branches there, enforcing the Anti-monopoly Act would have been difficult. A request for information pertaining to the 2008 proposal was not responded to and the JFTC needed to try to deliver the official document through the consulate in Australia and then deliver by public notice based on the provision of the Antimonopoly Act. But an amendment to the merger notification system in 2009 entails prior notification of mergers that could have a major impact on Japan, and the parties submitted information in compliance with the JFTC’s request. Since the proposed merger would have global consequences, other competition authorities were also interested, and the JFTC shared information with them based on the consent of the party. As a consequence, the potentially anticompetitive JV was effectively blocked.

2.6.3 Enforcing domestic competition law in commodity markets: Colombia

51. The Colombian delegation was then invited to tell the forum about their investigations of cartelised purchasing of agricultural commodities.
52. A Colombian delegate explained that with the co-operation of the Ministry of Agriculture, they had taken action against purchasing agreements in the rice and sugar cane markets, and there is one under way in the cocoa market. The processing sector is highly concentrated and the competition authority found that they acted as cartels, aiming at keeping domestic end-product prices high. They found also that domestic oil prices did not fall when international oil prices were falling.

53. The Chairman then turned to the Ukraine delegation to explain why they permitted exporters of sunflower oil, of which the Ukraine is a major producer, to “take concerted action” in the market for three months.

2.6.4 Enforcing domestic competition law in commodity markets: Ukraine

54. A delegate from the Ukraine explained that the country is a major producer and exporter of sunflower oil, and when international prices rose in 2010, there were domestic shortages and rising prices. The Ukraine sunflower oil market is oligopolistic with the three largest producers holding 60% of the market. When the competition authority started to investigate, the producers agreed to ensure sufficient domestic supply to keep prices stable, and in return, the government waived export quotas. The Anti-Monopoly Committee agreed to the agreement for a 3-month period in the interests of domestic price stability. It should be noted that legislation also exists to control prices of certain basic foodstuffs such as bread, sugar, meat, milk and sunflower oil.

2.6.5 Advocacy and deregulation

55. At this juncture, the Chairman called upon Mr Davenport, of the NSW Department of Trade and Investment, and a panel speaker, to give his views on the role of regulatory reform in promoting price stability.

56. Mr Davenport’s view\(^5\) was that competition-based regulatory reform has much potential to address the issue of commodity price volatility and contribute to efficient price transmission in the supply chain. Because of regulation, there is a lack of integration between domestic and international markets and producers. The result is that in emerging and developing countries, unsophisticated agricultural sectors cannot respond adequately to consumers’ demands, and investment in the sector is inefficient because it is not driven by efficient price signals. There are regulations throughout the supply chain in the form of restrictions on FDI, minimum support prices, input subsidies and regulated wholesale markets. If price signals are not efficient, research into sector issues will focus only on the symptoms of poor regulation and reduce pressure for reforms. A challenge for reform programmes is that as industrial policies are phased out, competition laws have to be applied to avoid anticompetitive outcomes. Market failures of various kinds exist, but when looking at proposals for addressing them, one has to ask if they are the least restrictive of competition and with a positive benefit cost ratio. The aim is to pull government out of actually running agricultural businesses and making their role one of shaping the business environment to facilitate rather than impede efficient price transmission.

57. Efficient prices also help to drive productivity, which is often seen as a technical problem with technical solutions on the input side, but there are falling marginal returns. Governments often have growth targets, but these are a sign of poor agricultural policies. Growth should be an autonomous outcome of good policies. Efficient price transmission leads to efficient agricultural production and investment, but this is generally under-emphasised and not well understood relative to technical solutions that are proposed instead. Governments justify technical solutions in the form of input and output subsidies on the grounds of

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farmers’ welfare, but other approaches are possible. Institutions to promote regulatory reform are not being
developed, there is a focus on competition law as though it would be the solution to everything. There is a
need to be more pro-active in developing a forward-looking research programme.

2.7 Monitoring prices and educating the public

58. The Chairman said that the final topic that morning would be the monitoring of prices and the
way in which the competition authority is used in that area. He invited Australia and the US to intervene on
this topic.

2.7.1 Monitoring the petroleum market in Australia

59. A delegate from Australia explained that the country produces 77% of its petroleum
requirements, the remainder being imported, so that domestic prices reflect global prices. The ACCC had
published a lengthy report on petrol and diesel prices in Australia explaining this, but some people still
think that high prices reflect domestic competition issues. The ACCC would like to see reports on retail
petroleum pricing in other OECD countries, so that the competition agencies can show that they reflect
international prices and are not necessarily domestic competition issues.

2.7.2 Monitoring the petroleum market in the US

60. A delegate from the US said that the Federal Trade Commission has a congressional mandate
since 2002 to monitor wholesale and retail prices of gasoline in order to detect anti-competitive behaviour.
Data are collected from several hundred outlets, and an econometric model is used weekly to detect any
anomalies. If there are unusual movements that do not appear to reflect market-driven causes, they consult
with the Department of Energy and can contact the offices of the appropriate state Attorneys General to
discuss the anomaly and appropriate potential actions, including opening an investigation.

61. Closing the morning session, the Chairman commented that there seems to be a variety of
instruments that the competition authorities do use. Although they cannot eliminate volatility in
commodity prices, they have used enforcement, merger control, international co-operation, advocacy on
regulatory reform, market studies and monitoring to at least improve matters.

3. Plenary session: Reports by the chairs of the breakout sessions

62. Delegates broke out into three sessions to discuss competition authorities’ experience with law
enforcement and advocacy. Upon reconvening in plenary session, the Forum heard reports from chairs of
each of these breakout sessions.

3.1 Report by Dr Joseph Wilson, Competition Commission of Pakistan

63. Dr Wilson reported that two issues had been addressed: advocacy by competition authorities; and
the buying power of supermarkets. He noted that in Colombia, the authority must comment in a non-
binding fashion on all regulatory proposals and on every piece of legislation to ensure that there are no
competition issues. In Mexico, the authority’s recommendations to other federal agencies are binding. In
the case of South Africa, we were told that deregulation of the retail sector in 2006 was followed by
anticompetitive behaviour, so the lesson from there is not to deregulate overnight, but do it cautiously.

64. The discussion of buying power revealed that there can be a fine line between it and abuse of
dominant position. Bulgaria was an interesting case where the authority felt it desirable to have special
powers in this area to deal with supermarkets. In Australia, the authority monitors retail prices, but does
not overreact to complaints filed by small-scale retailers. He called upon the Egyptian delegate to share experience in advocacy.

3.1.1 The raw milk market in Egypt

65. A delegate from Egypt reported that the authority was asked to investigate the regulated raw milk market where production was falling and farms exiting despite the existence of a tripartite committee to control prices in the formal sector, which accounts for 25% of raw milk output. They found that the buying cartel is per se illegal, and commissioned an econometric study which found that there was little probability of an increase in the downstream milk price if the raw milk price was increased. They proposed that a pricing formula be adopted by the farms and the manufacturers, and the largest buyer accepted a “milk to feed ratio”. Other major firms opted for vertical integration. Raw milk prices rose and farms did not exit any longer.

66. Dr Wilson invited the Bulgarian delegation to report on dealing with buying power of supermarkets.

3.1.2 Supermarket buying power in Bulgaria

67. A delegate from Bulgaria said that suppliers had complained that supermarket chains put a lot of pressure on them and kept purchase prices too low. The authority initiated an abuse of dominance case, but abandoned it as there was insufficient evidence. But they continued with their investigations and found that there were information-sharing agreements and most-favoured customer clauses. At least three chains had sufficient market power to enforce lowered prices on their suppliers without necessarily passing them on to the public. The case is continuing, with a national debate and an uncertain outcome.

68. The Australian delegation was then invited to report on their experience with price monitoring in the market for groceries.

3.1.3 Price monitoring in the Australian food market

69. An Australian delegate explained that two retailing chains possess 80% of the market between them, and the authority had been asked two years ago to monitor retail prices for a temporary period. They posted the results on the web so that consumers could easily compare prices. The site was popular at first but consumers rapidly lost interest. Subsequently there was a more detailed enquiry looking at regulations affecting supermarkets. They found that factors such as restrictive covenants and zoning laws are important determinants of competition in that sector, and that market power is not necessarily bad if consumers benefit.

70. The Chairman then asked Mr Kusha Haraksingh of the CARICOM Competition Commission to report on the discussion in the next breakout group.

3.2 Report by Mr Kusha Haraksingh, CARICOM Competition Commission

71. Mr Haraksingh reported that their group had looked at 3 areas: market studies; enforcement in downstream markets; and the role of advocacy regarding price regulation. Market studies are a very powerful tool for competition enforcement, especially for basic foodstuffs consumed by the rural poor. Mexico, Lithuania and Kenya had made such studies. They found that such studies also highlighted such issues as municipal or domestic restrictions. Studies that go beyond national boundaries into regional markets are also important and he invited the UNCTAD delegation to speak on their experience.
3.2.1 Regional sectoral studies in Latin America

72. An UNCTAD delegate said that they had made more than 20 sectoral studies in Latin America, examining competition in the production and commercial chains, identifying barriers to entry in economically important sectors. One example was a study of the grains supply chain in Nicaragua, in which integration was very low because of the large numbers of small producers. They recommended the creation of micro-producers associations to facilitate price negotiations.

73. Mr Haraksingh invited the Latvian delegation to report a case of downstream anti-competitive conduct in the egg market.

3.2.2 Latvian egg market

74. A delegate from Latvia explained that their action was prompted by an advertisement by the biggest producer inviting rivals not to practice low egg prices before Easter. The competition authority found that egg producers met regularly to fix prices. Eleven producers were punished. A second case was opened when they saw that eggs of one producer were being sold in retail outlets by another producer, and they found that there was a sharing of sensitive commercial data. They also won that case.

75. Mr Haraksingh reported that several delegates in that group had raised the issue of advocacy in relation to governmental price regulation. Kenya had convinced the government not to support a proposed control of maize prices, while Latvia and Lithuania had managed to block proposed regulation of retail price mark-ups. He invited the Mauritius delegation to inform the group about intervention in the sugar market.

3.2.3 Mauritian sugar market

76. A delegate from Mauritius said that the production of sugar is a very important industry there, though much less so nowadays than previously. Most sugar is exported, while domestically it was sold at a subsidised price until 2010, and subsequently at an at-cost price. The sugar syndicate, which also paid the pensions of dockworkers who had previously worked in the sugar exporting sector, was de facto a monopoly supplier. A local businessman proposed to import sugar at a lower price but the agro-food ministry reacted by proposing the creation of a monopoly and the authority was asked to investigate. The authority found that there was no justification for a monopoly, and that either there should be a common taxation treatment irrespective of the seller, or that the government should pay the dockworker pensions. The Minister agreed that there should be domestic entry and imports.

77. The Chairman thanked Mr Haraksingh and invited Mr Francis Kariuki of the Competition Authority of Kenya to report on the discussions in his group.

3.3 Report by Mr Francis Kariuki, Kenya Competition Authority

78. Mr Kariuki said that five issues were discussed in the group: trade restrictions; price monitoring; pricing laws; advocacy; and enforcement. He called upon Tunisia to report on a compensation fund set up to mitigate price volatility that has had budgetary costs, and associated trade measures.

3.3.1 Price controls in Tunisia

79. A delegate from Tunisia said that cereal products were directly subsidised by the State and international price variations were absorbed. Fuels and electricity are treated similarly, while state enterprises subsidise products that are totally imported such as sugar, coffee and tea. The fiscal cost of all these subsidies had tripled between 2006 and 2011. Other measures included reducing import tariffs on
products such as vegetable oils, animal feedstuffs and barley, and facilitating import procedures. Measures were also taken to liberalise the markets for barley and vegetable oils, which had been state monopolies.

80. Mr Kariuki then asked the Peruvian delegation to explain their “red, amber and green” price monitoring system.

3.3.2 Price monitoring in Peru

81. A delegate from Peru said that INDECOPI monitors retail and wholesale prices monthly, collecting data from the National Statistics Institute and correcting them for inflation and seasonal factors. Then they examine to what extent prices deviate from historical trends, classifying them as “red” if the deviation exceeds 2 standard deviations (SDs) over 3 months, “amber” if the deviation exceeded 2 SDs over one to two months, and “green” for products of interest for which the deviations have been small. Products in the red group are reported to the competition commission.

82. Mr Kariuki invited the Pakistani delegation to comment on its success in persuading the Supreme Court there that some commodity prices should not be fixed.

3.3.3 Intervention against price fixing in Pakistan

83. A delegate from Pakistan said that there were reports in the media in 2009 that there was a “sugar mafia” cartelising the market. The government fixed the price at 36 rupees per kilo, and the sugar mills said they could not operate at that price. The High Court raised the price to 40 rupees, and this was challenged before the Supreme Court, which asked the competition authority to carry out a cost analysis. They explained that the market should be free, that fixing the price would distort the market. However, they carried out the analysis and discovered various anomalies, and recommended against fixing the price. Indeed, while the price was fixed at 40 rupees, sugar became unobtainable. They also found that the government was consulting only with trade associations when fixing a price, and they advised the government, which does have the legal power to fix prices, to rather carry out independent research. The parties went to the court and asked for a stay of judgement before the decision was recorded. The competition authority reacted by passing a provisional order saying that the parties were guilty and to impose a maximum penalty. The case is pending.

4. Plenary session: next steps

84. The Chairman thanked the chairs of the breakout sessions and invited John Davies, Head of the OECD Competition Division, to synthesise what had been learned, and what kind of advice could be given to competition authorities on its basis.

4.1 Proposals by the OECD Secretariat

85. Mr Davies said that he would focus on the next steps, drawing on the discussions to illustrate what was being proposed. Then there would be time before the end of the meeting for a general discussion and he would welcome feedback. As usual, the Secretariat would subsequently pull everything together into one big book containing all the country submissions as well as the initial presentations and the Secretariat background paper. But given the topicality of the issue and the political and media interest, the Secretariat would also produce something much shorter and punchier for competition authorities that they could refer to if asked by a politician or journalist what they could or should do about commodity prices. There are several responses:

- First the factual background on what is happening in the world, not just in that country, and how volatility has come about, focussing on real causes and not blaming speculation.
Second, there are global competition problems in the form of export cartels and export bans, and they can exacerbate price volatility.

Next there is the question of subsidies, and some governments have incurred, and continue to incur, huge budgetary costs, although New Zealand in the past is an example of a country that succeeded in doing something about it. As regards price controls, one cannot be too dogmatic and say they should never be used, because they might be appropriate for essential goods for poor households as a temporary emergency measure, but they can be designed better and limited.

Then there is the role of policy advocacy, including advocacy directed at deregulation and regulatory reform, and the meeting probably heard more about that than about cases. It needs to be said that advocacy needs to happen at the local level, not just at the national level.

As to cases, the meeting heard a lot about cartels, but there did not seem to be very much in the cases discussed that was strongly linked to the crisis. The cartels did not seem to form when prices rose, but had probably existed for some time. Perhaps they are easier to spot during price spikes because their members need to be more active in renegotiating.

The role of market studies was shown to be unexpectedly important. It is not comfortable to say in response to a request for action that you need to do a study first, but they do show up everything that might be wrong with the market. For example the Kenyan case showed that there was not only price fixing but also anticompetitive regulations and infrastructure problems. So a study is not just a way of looking busy, but worth carrying out and the booklet could emphasise that.

Finally, *ex post* studies need to be carried out. The Egyptian submission said that the competition authority warned the government what would happen if they tried to control the price of steel, they went ahead anyway, and the warnings came true. Those sorts of experiences are very valuable.

86. He suggested that the booklet should show competition authorities some of the things they should be warning governments against doing, some of the things that governments should be doing and how they should be doing them. It should also cover what the competition authorities might be doing on cases and also on market studies, making the point that market studies are a good response to a price spike. The brochure should look just at price spikes, not price falls. Although falls in the prices of exports can cause significant problems, this seems to be less of an issue specifically for competition authorities.

87. It is hoped to be able to produce the brochure within a few months.

4.2 Comments by participants

4.2.1 The Chairman

88. The Chairman said that as well as market studies, he felt that price monitoring and information gathering activities appeared to be very useful, they are not really enforcement, and if done *ex ante*, before a crisis, they can be used by the competition authority to prepare an answer when the crisis is about to emerge. He gave the floor to Australia.
4.2.2  *Australia*

89. A delegate from Australia emphasised that the competition authorities should make it clear that competition will not necessarily make prices fall, but will make them lower than they otherwise would be. Otherwise people will say that when prices rise, competition is not working, and that the competition authorities should be doing something about it.

4.2.3  *South Africa*

90. A delegate from South Africa noted that there are different circumstances in different countries. For example, in South Africa, deregulation was poorly managed, and it would have been better to regulate than in effect have the market regulated by the private sector. Although market enquiries are useful and giving powers to the competition authorities to collect information could be very helpful, but in different markets distortions may occur because of things happening inside the country or outside the country. One needs to recognise divergence.

4.2.4  *Namibia*

91. A delegate from Namibia said that he was trying to get a better sense of the relation between competition and commodity price volatility. Whether prices are high or low, it depends on what is making them so, is it the fundamentals or is it distortions. Does lack of competition lead to commodity price volatility, or is it an effect?

4.2.5  *Pakistan*

92. A delegate from Pakistan said that it was important to understand what is an unreasonable price increase from a legal viewpoint. There is little jurisprudence there because competition authorities deal with cases of abuse of dominant position. Secondly, the report by the international organisations\(^6\) on page 18 says that policies need to be legitimate and broadly owned by the relevant stakeholders. But what is a legitimate policy? And broad ownership may not ensure reduced price volatility. Pakistan broke up two cartels in which there were 82 companies competing against each other, but there was still cartelisation. Hence the recommendations might not be true for all.

4.2.6  *Japan*

93. A delegate from Japan underlined that advocacy and information gathering are useful, but enforcement is the best form of advocacy.

4.2.7  *CUTS*

94. The delegate from CUTS said that one important aspect of competition on commodity markets, namely futures trading, had not been discussed. In India at present, there is an ongoing investigation into collusion for commissions by the market traders. In practice, the competition authorities can do very little about it, such issues are the exclusive preserve of the futures trading regulators.

4.2.8 The Chairman

95. Before turning the floor back to John Davies, the Chairman observed that the Committee had already looked at the issues raised by the Pakistan delegation at the September 2011 Roundtable on “Excessive Prices”7. As regards the South Africa intervention, the Chairman did not want the proposed brochure to be in any way prescriptive. It should reflect the exchange of experience on cases, for example that strong enforcement had been useful in some cases, market studies in others. The Committee had decided long ago that it was not going to negotiate texts that would be agreed by all countries, that would take too long and be inappropriate. We will map out the different issues reflecting the experience of different countries, but not going so far as to say that among all the options, this is the one that we recommend. Cases should be emphasised, but no conclusion. It will be up to the competition authorities to decide how they want to use the information.

4.2.9 Response by the OECD Secretariat

96. Mr Davies underlined that the purpose of the brochure was not to single out particular policy prescriptions, but rather to consider what sorts of policy instruments could be used in an emergency. There had been discussions of subsidy and price control schemes, and it was important that the competition authorities get involved to help design something that would work well and be non-distortionary. The brochure will focus on what can or has worked when there have been price spikes and volatility, and a few examples of what has not worked very well.

97. Namibia had asked a good question on what is really the link between competition and price volatility. Mr Davies’ view was that if markets work well, they should be self-correcting, and if not, or if volatility is extreme, maybe they are not working well, and this may reflect inappropriate national or international policies that try to suppress supply or demand responses.

98. Pakistan had asked, what was meant by a legitimate policy, and popular support for it? Mr Davies thought that it meant that one should not be too purist, not have technocratic solutions that look good to economists, but do not reflect the realities of politics and public opinion.

99. Closing the session, Mr Jenny noted in response to CUTS that perhaps the regulation of futures markets was beyond the scope of the proposed brochure, and in response to Namibia that the theoretical link between competition and volatility is unclear, but there is a link between volatility and pressure on the competition authority to do something.

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