LATIN AMERICAN COMPETITION FORUM

Session III - Advocacy: Mainstreaming competition policy into the overall economic policy and government actions in Latin American and the Caribbean

-- Background Paper by the IDB Secretariat --

16-17 September 2014, Montevideo, Uruguay

This document was prepared by Mario A. Umaña from the IDB Secretariat to serve as a background note for Session III of the 12th meeting of the OECD-IDB Latin American Competition Forum on 16-17 September 2014 (Uruguay).

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JT03361358

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1. Introduction

1. This background note sets forth some hypotheses that explain why competition policy does not scale to the forefront of LAC countries economic policies. This note also details the advantages that mainstreaming competition principles could bring about for the economic development of the region.

2. In the past 20 years, the vast majority of Latin American and Caribbean (LAC) countries have adopted a competition system that includes at least a competition act and a competition agency responsible for its implementation. The totality of competition agencies from the LAC region is vested with advocacy powers as part of their portfolio instruments. There is ample literature available on the role that Competition Advocacy should play in the ordinary work of competition agencies and the benefits and constraints thereof. Notwithstanding the aforementioned, there is lack of empirical data measuring the success of advocacy activities in mainstreaming competition policy principles into the overall implementation of economic policy including activities in which government institutions engage. Commonly, competition agencies as part of their advocacy activities tend to react against the presence of legal and regulatory barriers that distort the market. That said, there is no data measuring the results of these advocacy efforts that generally result in non-binding opinions for the administration.

3. The benchmarking of competition systems across LAC countries show that governments are placing increased importance to mainstreaming competition principles in their policies. That said, political economy realities coexist within the context where strong lobbies and other types of interested groups play a role. The result is that many competition systems and broader industrial policies foresee as part of their goals the protection of sectors and firms that fall under certain category (agriculture, utilities, SMEs, etc.). These other goals often supersede the purely consumer welfare goal of competition policies, and sometimes

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competition laws are enforced in a vacuum. Even as the profile of Competition Policy is growing in the region, in most cases, it is still a second division player waiting to be promoted to the premier league.

4. There is no clear picture on how competition policy principles are being used, or mainstreamed in the overall economic framework of LAC countries. The fact is that competition policy is not generally perceived by key policy makers as a fundamental pillar to boost the wealth of LAC countries. Therefore, competition policy is often inexistent in the political agenda of most governments leaving the institutional arrangements with a low-key profile and a scarce budget allocation. Moreover, competition policy issues are not generally a topic (at least directly) in most political campaigns, despite the fact that a large percentage of the population purchasing power (especially those with lower income) is affected by anticompetitive distortions in basic goods and services. In fact, in the LAC region there is a homogenized political discourse that often addresses the need to reduce consumer prices, but that seldom references competition policy as the necessary tool to that end.

5. The IDB background note argues the mainstreaming of competition policy into the overall economic policy may open additional doors to LAC policy makers to boost economic development. The former is particularly important in a time where traditional economic policy tools (fiscal, monetary, and financial policies) have proven limited for the achievement of economic development targets. In detail, Competition Policy may contribute to: i) consumer welfare in the form of lower prices, thus increasing the purchasing power of consumers, especially those with lowest income, ii) fiscal savings by improving competition in public procurement processes, and iii) boost productivity (competitiveness) of the private sector by increasing rivalry conditions in the domestic market and promoting innovation. Effective competition advocacy may indeed contribute to dismantle legal/regulatory barriers that impede effective functioning of markets. In this context, there are two key questions that remain unanswered and that refer to the limited advocacy capacity of competition authorities and the best methodology to carry out such activities. The success in mainstreaming competition policy may be also tied to an adequate understanding of the political economy of each country and region.

2. An overview of the LAC competition systems and agencies’ advocacy powers

6. The LAC region is not an exception to the worldwide trend since the 90’s where nations have enacted competition laws. As of July 2014, only Guatemala lacks specific competition legislation in Latin America (although competition principles are embedded in its national Constitution). In the Caribbean, the situation is more heterogeneous: Haiti, Belize, Suriname and the OECS countries have not enacted national or sub regional legislation, but all (except for Haiti) are currently working on the preparation of drafts. Barbados and Jamaica have competition functioning agencies, while Trinidad and Tobago has legislation.

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2 To be sure, in countries and regions where competition policy has been able to influence overall economic policy, the performance of the economy has been strong: USA, EU, Japan, Korea, Australia and New Zealand. More recently, emerging economies as India and Chile showed an increase commitment on mainstreaming competition policy. See for example Metha and Agarwal, *Time for a Functional Competition Policy and Law in India: Mainstreaming competition principles into policy and legal framework is pro-development*, CUTS Centre for Competition (2006), available at www.cuts-international.org/pdf/compol.pdf

3 Please refer to www.gwcl.com/database for a complete list of countries and their national competition legislations.

4 Limited follow up of competition issues is done by the Ministry of Economy. Other 2 countries deserve special attention: The Dominican Republic agency PROCOMPETENCIA has been appointed since 2012 but enforcement of the law has not started as of July 2014 pending the appointment of the Executive Director. Likewise, Paraguay enacted legislation in 2013 but implementation is pending to the appointment of the Commission.
but not a functioning agency. There is a regional Competition Commission based in Paramaribo, Suriname, under CARICOM which applies regional competition legislation.

7. At the regional level, as discussed in the LACF 2013, there are 4 integration blocs that seek to consolidate customs unions and or common markets: Central American Common Market (MCCA), Andean Community (CAN), Southern Common Market (MERCOSUR), and the Caribbean Community (CARICOM), yet competition law and policy still does not play a major role in the integration efforts. In Mercosur, there is not substantive competition regional legislation in place but only a requirement to have domestic legislation in place and some collaboration schemes. The regional competition committee is not operative and moreover, its decisions cannot be directly implemented but need to go through the national authorities. The Andean Community has a true substantial regional legal framework (known as Decision 608) but unfortunately it has not been used so far, leaving the issue as a theoretical exercise. CARICOM has enacted regional rules and has a regional Commission. No cases have been adjudicated so far. The Central American countries have completed their Customs Union, but have no regional rules on competition. The Competition authorities have formed a working group that has completed a draft regional framework which will be reviewed shortly by the relevant agencies (both regional and national) dealing with the integration process in this region.

8. The existence of a competition law is a condition precedent for the existence of competition policy, but is not sufficient. A robust and working institutional arrangement to implement such legislation is crucial as well. The poor institutional design of competition agencies in the LAC region is twofold. Firstly, there is an intellectual vacuum with respect to how institutional arrangements impact competition policy outcomes. Secondly, governments tend to focus on those institutional aspects that they want to keep under control such as the methodology to appoint the heads of the agencies, and the distribution of mandates across other sectors to avoid over empowering competition agencies. There are a some exceptions worth identifying: (i) Chile has a strong institutional structure; and (ii) Mexico and Brazil, both with strong and respected agencies and recent updated legislation which strengthened the role of competition policy in the economy; and (iii) Peru, Colombia and Panama with larger agencies because of the multiplicity of mandates (i.e.: consumer protection, competition, unfair trade practices, intellectual property). Despite progress observed in the institutional development, it is also evident that fewer countries have been able mainstream competition policy in the overall public policy.

9. One of the weaknesses observed across the LAC regions is that competition institutional arrangements are relatively small understaffed and under budgeted. Institutional design has an impact on the outcome and the aforementioned constraints compromise their ability to adequately enforce competition legislation, promote competition policy and affect their independence/autonomy with respect to the executive branch.

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5 On July 9th, 2014, the Minister of Trade, Industry, Investment and Communications of Trinidad and Tobago appointed the three Commissioners of the Fair Trading Commission, so implementation of the law should commence momentarily, in compliance with the mandate of Chapter VIII of the Revised Treaty of Chaguaramas.

6 See Luis Diez-Canseco. IDB. Regional Competition Agreements. 2013 Latin American Competition Forum. Session II

7 See Peer Reviews of Competition Law and Policy in Latina America. ISBN-978-92-64-04201OECD/IDB 2007 for an assessment of 5 countries (Brazil, Argentina, Mexico, Peru, Chile)

10. An analysis of the advocacy mandate of LAC competition authorities reveals an interesting pattern. Advocacy powers are generally translated into the power to issue opinions either on a voluntary or compulsory manner, and the characterization of such opinions as binding or not. In this regard, the regional consolidated trend is to grant agencies with the powers to issue opinions on a voluntary basis with no binding effects.

![Graph showing voluntary opinions, compulsory opinions, and binding nature](image)


11. A solid majority includes the possibility to issue opinions on existing or draft legislation on a voluntary and non-binding basis. Whereas a majority of agencies are entitled to publish opinions on legislation affecting competition, only a few of these opinions are binding. Moreover, in very few instances is the legislature obliged to request agencies’ opinions before approving new legislation.9 These results are intimately related to the democratic legitimacy that agencies have. The possibility to publish opinions on legislation affecting competition is in line with the goals of agencies to ensure that competition governs the markets. The compulsory nature of these opinions is not necessarily in line with the pursuit of agencies’ goals. In fact, the genealogy of the distribution of powers clearly endeavors the legislature with the exclusive power to adopt legislation. The democratic legitimacy that defines the adoption of legislation may be lacking if agencies’ opinions are given a binding nature. For the same reasons, the legislature is not obliged to request the NCA’s opinion before implementing legislation that may affect competition in the markets.

3. Hypothesis on the preference for other public policies other than competition

12. Competition Policy is based on the classic paradigm that rivalry among economic agents increases the ability of markets to determine efficient prices in the economy and boost innovation.10 Yet, competition policy is constantly in tension with other public policies often driven by factors that augment the role of the government in the formation of prices: industrial policy, agricultural policy that favors food

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9 Analysis of ICN Members’ Requirements and Recommendations on Further ICN Work on Competition Advocacy Prepared by ICN Competition Advocacy Work Group Sub-Group 1: Review and Update Project Presented at the 8th Annual Conference of the ICN Zurich, June 2009.

10 See A framework for the design and implementation of Competition law and policy. World Bank, OECD (1999).
sovereignty, policy to return to SOEs models, SME policy, state aid, intellectual property protection and innovation, public procurement policy, and trade policy, among others. The anti-market bias in the region and some of the corrective measures established may be rooted in the colonial past of the region.\textsuperscript{11} Short term gains may clash frequently with longer term policy objectives. Additionally, the last global economic crises may have triggered enhanced anti-market policies in the region, in particularly the emergence of new sets of industrial policies.\textsuperscript{12}

13. In short, some explanations to this phenomenon are these explanations are: i) Inability of competition agencies to educate consumers on the benefits of competition policies (which in turn are less organized than other interest groups); ii) The use of competition policies for purposes other than consumer welfare by the legislative and executive branches (breakage of conglomerates, protectionism from transnational corporations and protection of SMEs); iii) lack of administrative and judicial clarity as to the definition of activities that are anticompetitive or not; and iv) Misalignment between short and long term economic efficiencies and economic goals (i.e.: Intellectual property protection and innovation needs, industrial policy, etc.). Finally, the established traditional private sector often perceives competition policy as a threat to the status quo.

3.1 Inability of competition agencies to educate consumers on the benefits of competition policies

14. Competition Policy leaders have not been able to explain with hard data the benefits of competition. Moreover, some scholars like Shughart, Tollison, Rubin, Asch and Seneca have help to undermine the notion that there is empirical basis to support the hypothesis that competition is increased, monopoly profits avoided, and consumer welfare enhanced by the actual application of competition law.\textsuperscript{13} Competition agencies are often too busy pursuing private anti-competitive behavior, reviewing mergers, or in some cases, just trying to survive. The fact is that there are few resources allocated to understand and explain better the benefits to consumers if competition is introduced in every relevant market. Economic agents by nature seek to avoid competition\textsuperscript{14}, and normally are better organized than consumers and in better position to influence public policy.

3.2 The use of competition policies for purposes other than consumer welfare by the legislative and executive branches

15. The rationale behind the enactment of competition law and policy is sometimes based on diverse perceptions about how markets can function more efficiently. It is not unusual to advocate competition policy remedies on the merits of the size of firms: fighting against big firms and the defending of smaller firms.
firms, regardless of the effect on consumers. This explains why even some countries which advocate substantial government intervention have supported some type of competition policy. The composition of most modern parliaments often favors a logical attachment of the legislator to interest groups that contributed to their campaign and made possible their election. Moreover, producers and economic agents are well organized in trade unions and like organizations, and exercise their power efficiently in their lobby efforts. The Executive branch in presidential systems, though less attached to interest groups, is often subject to regulatory capture as well. On the other hand, Competition policy is not a recurrent feature of the political discourse, including party manifestos or political campaigns messages, as opposed to the presence of industrial policy, SME development, price controls, etc. in this arena.

3.3 Lack of administrative and judicial clarity as to the definition of activities that are anticompetitive or not

16. Evolving and sometimes contradictory administrative and judicial jurisprudence may cause confusion on the economic agents. From the SCP paradigm and Harvard School, to the Chicago School, the New Institutional Economics, the Austrian school, game theory, or evolutionary economics, etc., Latin American agencies and courts strive in search of technical clarity. This large menu of economic theoretical developments is more evident in the area of unilateral conduct and merger control, where thorough economic analysis is often necessary, but also present in the vertical area. Not only schools of economic thought are diverse, but the legal transplants and traditions too.

3.4 Misalignment between short and long-term economic efficiencies and economic goals

17. Competition policy fundamentally targets firms’ illegal behavior as well as legal barriers that may affect the Pareto efficiency of markets. It is less clear what is the relationship of competition policy with long term development goals that imply, by definition, the concentration of capital for activities as innovation, or those that require relevant economies of scale (i.e.: size) which are essential for sustainable growth. This Schumpeterian view of economic development might sound too antagonistic to the orthodox view of competitive markets, and yet, most of the recent Latin American literature in Competition Policy is not far from it.

4. The advantages of mainstreaming competition principles

4.1 Social dimension of competition

18. Even though the role of competition policy in the fight against poverty is still debated, some empirical data may show some interesting potential if some improvement in the business climate is

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15 Even the Sherman Act, the US main antitrust law was a child of the industrial revolution and a tool to fight against trusts under the concern of unfair use of power, and disparities in wealth. See Eleanor Fox and Robert Pitofsky: United States, in Global Competition Policy, Institute of International Economics, Chapter 7, p 235 (1997).


19 See among others: Ignacio de Leon, Jose Tavares de Araujo, Luis Tineo, Ana Julia Jatar.

present. Most of the goods and services consumed by populations living under the poverty threshold have strong competition-related problems. That is, a large percentage of the purchasing power of the poor is affected by lack of market behavior in some sectors. Assuming that goods and services in cartels have an overprice of 20% to 40%, any correction induced by competition policy may increase de facto the levels of purchasing power of the poor with very small fiscal cost by the way. Latin American consumers may have paid around US$35 billion in overprices due to price fixing by international cartels between 1990 and 2007. In another study, the OECD measured the impact of market power on levels of household spending on staple products like tortillas, chicken, and milk in Mexico. The data showed that the relative negative effect of monopoly power is greatest among the poorest ten percent of households. Moreover, the elimination of legal barriers in some cases may have similar or even larger effects because distortions are greater and more difficult to overcome. It is also true though that an opposite effect on the poor may be caused by competition policy with regard to poor producers.

19. The case of tariff protection to rice in Costa Rica may serve to illustrate the point:

Box 1

A combination of tariff barriers, including the Special Agriculture Safeguard of Article 5 of the Agricultural Agreement, tariff rate quotas, price controls and phyto-sanitary measures are used to protect it from competition in Costa Rica. Calculations of producer support estimates (PSE) for rice, suggest that rice farmers in receive more support than their peers in the United States and the European Union. According to welfare economics models the transfers from consumers to the rice industry (growers and millers) reached an accumulated 10 year amount of US $396.4 million, from 1996 to 2005, of which 80% was absorbed by the millers and only 20% by farmers. Similarly, the net present value of income transfers from consumers to rice producers was calculated at US$428 million. The impact of these transfers is socially regressive, since per capita spending on rice is conspicuously more significant in lower income households. Price to consumers, measured by the Consumer Price Index, indicates deteriorating purchasing power among consumers and especially among the poorest households. A study report an 8% increase in the total basic food basket because of higher local prices compared to international CIF prices calculated for a small basket of agricultural foods that include rice, poultry, dairy and beef.

4.2 Fiscal dimension of Competition

20. The role of competition policy in improving public procurement is very well documented, although not often publicized. Public Procurement agencies often focus their attention on transparency and potential corruption, but less in understanding the structure of the market, the barriers to entry and the potential illegal behavior among competitors, which are, by definition, typical concerns of competition agencies. There are huge potential for savings and for substantial positive fiscal impact, given the weight of public procurement in GDP (around 15% in average). See below the case of lack of competition in procurement by the Department of Homeland Security in the US.

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21 Ibid, paragraph 37, citing work from John Connor.
23 See OECD note, supra note 17
The general rule of government contracting is "full and open" competition. The rules controlling the federal government's allocation of $350 billion in contracts emphasize competition as a safeguard against collusion between government buyers and private sellers. The Department of Homeland Security (DHS), however, was created with a special exemption from these standard rules. The rationale behind DHS's exemptions was that the normal competitive bidding requirements would interfere with the department's unique national security mission. In 2003, one year after its inception, DHS awarded $655 million worth of contracts without full and open competition. By 2005, this figure had risen by 739% to $5.5 billion. However, instead of resulting in faster, more efficient procurement of goods and services, DHS's noncompetitive contracting has created widespread waste, fraud, and abuse.

More recently, joint collaboration between the Mexican Social Security Institute (IMSS) COFECO and OCDE produced substantial improvements in the procurement processes of IMSS including a better design of RFPs and imposition of fines for collusive practices resulting in several billions of US dollars saved.26

4.3 Competition and competitiveness

Competition Policy may be the backbone of long term competitiveness for national firms trying to survive the global market. Professor Michael Porter of HBS developed in the late 90s a modern theory of competitiveness according to which firm rivalry was a necessary condition for competitiveness (productivity), and where strong Antitrust was key element to induce rivalry.27

Enhancing productivity

It is customary to see antitrust enforcement not only as a tool for combating illegal behavior but also about dismantling barriers to entry. Entry28 has been log identified as one of the essential elements of competition.

Inducing contestability in markets, especially in the regulated sectors, has proven to be a daunting exercise in Latin America. Privatization efforts in the 90’s were not necessarily based on the need to open markets, but on the idea of transferring state property to private hands.

More recently, multilaterals have step up their technical support and policy programs aimed at improving the business climate and the functioning of markets: The IDB and the World Bank supported the establishment of the Regional Competition Center (CRC) which has produced many sector studies,

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28 A correct analysis of entry or barriers to entry lies at the heart of an assessment of monopoly Power. See David Harbor and Tom Hoehn, Barriers to Entry and Exit in European Competition Policy, International Review of Law and Economics (1994) 14, 411-435
guidelines and capacity building for competition agencies and judges. The IDB has also joined the OECD to coordinate the Latin American Forum, as a space to discuss country level competition policy peer reviews and topics that affect the competitive process of markets. The World Bank Group has established two work streams: 1) Removing sector-specific constraints that affect market competition and 2) Supporting effective antitrust and competition rules that affect market competition in key sectors. The International Competition Network (ICN) has worked extensively in developing Competition Advocacy as best practice: “the mandate of the competition office extends beyond merely enforcing the competition law. It must also participate more broadly in the formulation of its country’s economic policies, which may adversely affect competitive market structure, business conduct, and economic performance”.

5. Conclusion

Successful mainstreaming competition policy should require a delicate balancing exercise between inducing competition principles in all levels of public policy with the need to maintain neutrality and credibility of the competition agency. The advocacy role is fundamental for the identification of barriers to entry and their removal. On the other hand, some substantial policy decisions related to i.e.: opening of sectors or deciding the levels of tariff and non-tariff protection may exceed the reasonable role of the competition agency.

“But another aspect of that tradition supports a division of labor. The constitutional conception of the competition law requires that the body applying it be clearly independent of political deal-making. That independence could make the enforcer an even more effective advocate. A strong ethos of impartiality can give the comments of an independent body considerable weight and authority. But that capital is a valuable resource, and there may be a concern that spending it too freely in contentious policy debates could undermine enforcement credibility.”

A different view may be inferred by the role of KFTC in policy making in Korea. Competition advocacy in Korea is viewed as the effort which aims to apply the competition principle in the government processes of policy decision-making and implementation.

Any effort to mainstream competition policy into the larger set of public policies of LAC countries should be based on the following conditions:

- Strong and independent Competition Authority, with sound technical capabilities
- Economic data available on the specific benefits of competition for consumers
- Long term national development strategy that supports competition and the functioning of markets, and links it to consumer welfare (especially those with lower income), fiscal savings, and productivity boost.