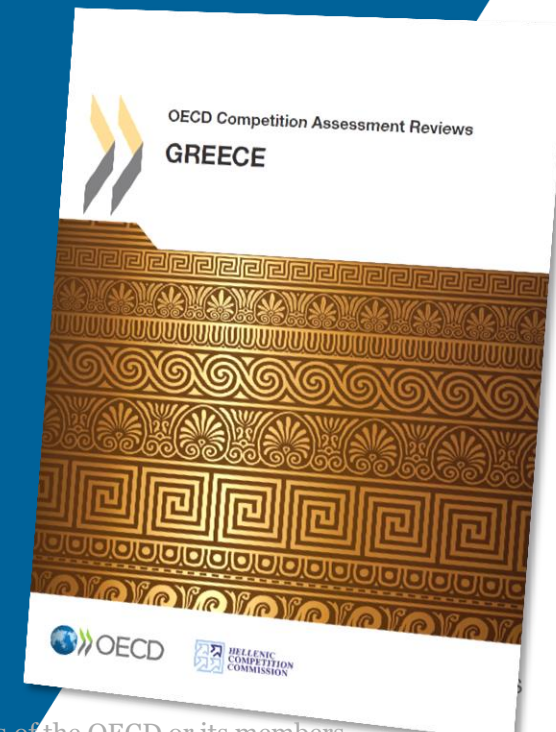




PRODUCT MARKET REGULATION REFORM: OPERATIONAL METHOD & QUANTIFICATION

IMF-OECD-WB Conference on Structural Reforms
11 June, 2018 Paris

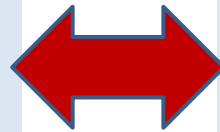
Sean F. Ennis, Senior Economist, OECD Competition Division





Motivation: The missing link

- Structural reform of labour and product markets regularly espoused by governments
- Structural reform is key to enhancing productivity and restarting growth



- Industrial organisation economics demonstrates
 - forces leading to regulatory restrictions and
 - impacts of such restrictions



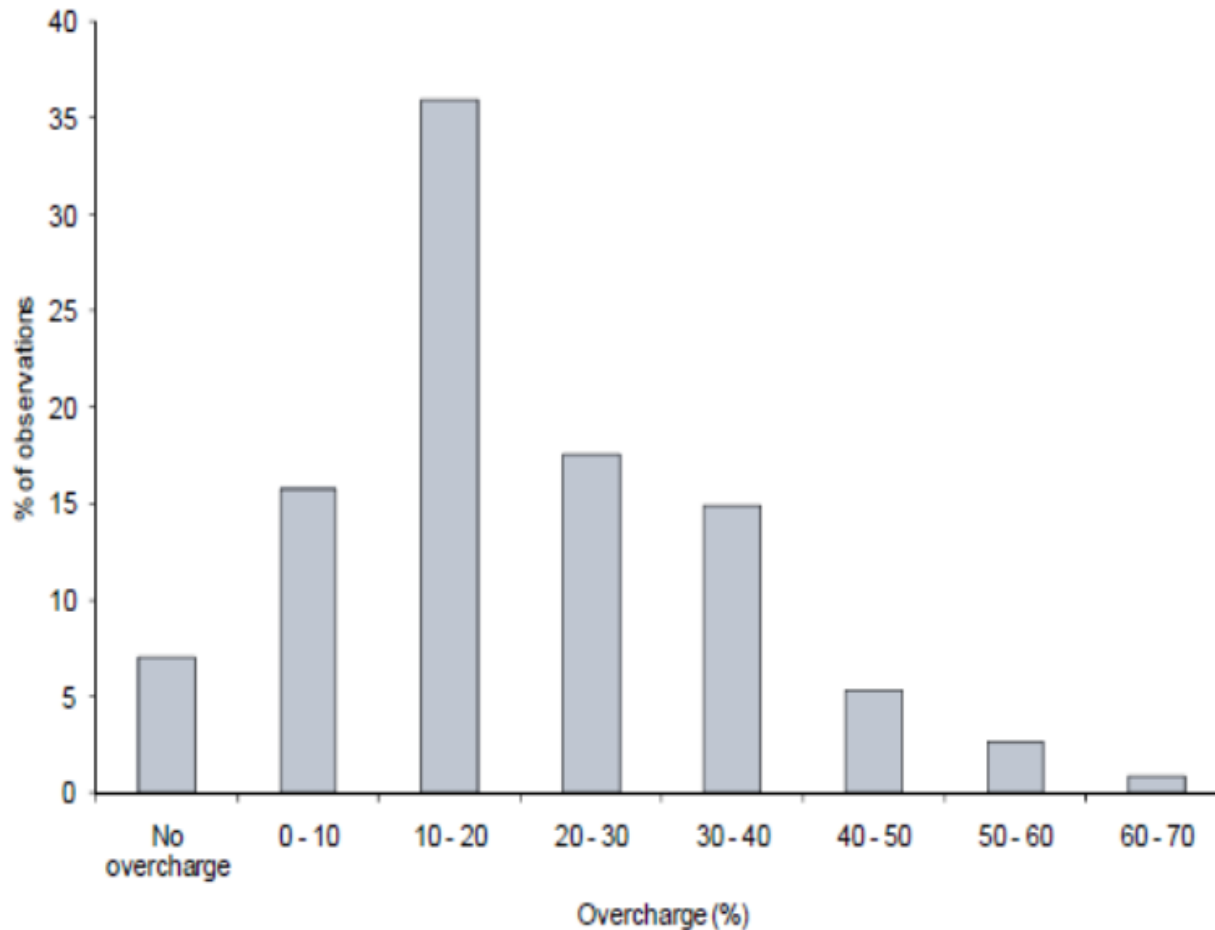
Ex post reform studies

Mean price change (ρ) (absolute value in ratio of price decline)	Range	# of studies	Category and sub-category of regulatory restriction
0.21		115	(A) Limits the number or range of suppliers
0.23	-0.9 to -0.006	35	1 Grants exclusive rights for a supplier to provide goods or services
0.12	-0.31 to -0.003	10	2 Establishes a license, permit or authorisation process as a requirement of operation
0.17	-0.416 to -0.040	15	3 Limits the ability of some types of suppliers to provide a good or service
0.24	-0.75 to -0.002	41	4 Significantly raises cost of entry or exit by a supplier
0.13	-0.36 to -0.04	10	5 Creates a geographical barrier to the ability of companies to supply goods services or labor, or invest capital

Source: Ennis (2018)



Distribution of cartel overcharges



Connor and Lande (2008) as reported in Oxera and Komninos (2009)



OECD Methodology : Competition Assessment Toolkit

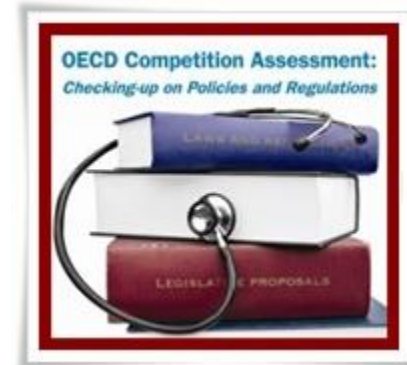
- Competition Assessment Toolkit (CAT), 2007-current
 - <http://www.oecd.org/daf/competition/assessment-toolkit.htm>
- Designed for government officials in decision-making roles and staff who will conduct the assessments
 - “Principles” : the basics for policymakers
 - “Guidance” : details the framework and the steps needed to implement competition assessments
 - “Manual” : providing operational guidance for completing competition assessments
- 2009 Council recommendation on competition assessment





What is competition assessment?

- Competition assessment is:
 - the assessment of whether regulations restrict competitive conditions; and
 - the development and evaluation of alternatives to find options that restrict competition less
- Builds on industrial organisation economics and transforms concepts into concrete, operational method
- Medical analogy: Ties into PMR and STRI (diagnostic tools) with competition assessment as the “treatment”
- Substantial body of empirical work shows the productivity benefits pro-competitive reform
- Fits into broad demand for structural reform





What projects has OECD had?

Country	Year
Greece	2013
Greece	2014
Romania	2016
Greece	2016
Mexico	2017
Portugal	2018
Mexico	2018





Competition Assessment Checklist

Initial Screening Based on the Checklist



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



Competition Assessment Checklist

Initial Screening: Checklist Question #1-4

- Does the rule or regulation
 - **limit the number or range of suppliers?**
 - **limit the ability of suppliers to compete?**
 - **reduce the incentive of suppliers to compete?**
 - **limit the choices and information available to customers?**



Sector reviews

Country	Sector/ product	Vertical chain?	Year	Legislation reviewed	Regulations with potential restrictions	Recommend ations
Greece	Retail trade	No	2013	*	210	129
Greece	Building materials	No	2013	*	46	32
Greece	Tourism	No	2013	*	132	76
Greece	Food processing	No	2013	*	100	54
Romania	Construction	No	2016	162	95	72
Romania	Freight transport	No	2016	566	85	46
Romania	Food processing	No	2016	167	47	34
Greece	Construction	No	2016	251	61	68
Greece	Media	No	2016	251	68	68
Greece	Wholesale Trade	No	2016	292	265	134
Greece	Pharmaceuticals	No	2016	155	88	54
Greece	E-commerce	No	2016	71	15	10
Greece	Manufacturing	No	2016	268	80	48
Mexico	Medicines	Yes	2018	107	100	50
Mexico	Meat	Yes	2018	121	76	57
Portugal	Professions	No	2018	n.a.	n.a.	n.a.
Portugal	Transport	No	2018	n.a.	n.a.	n.a.
Mexico	Gas and LPG	No	2019	n.a.	n.a.	n.a.



Analyse harm to competition

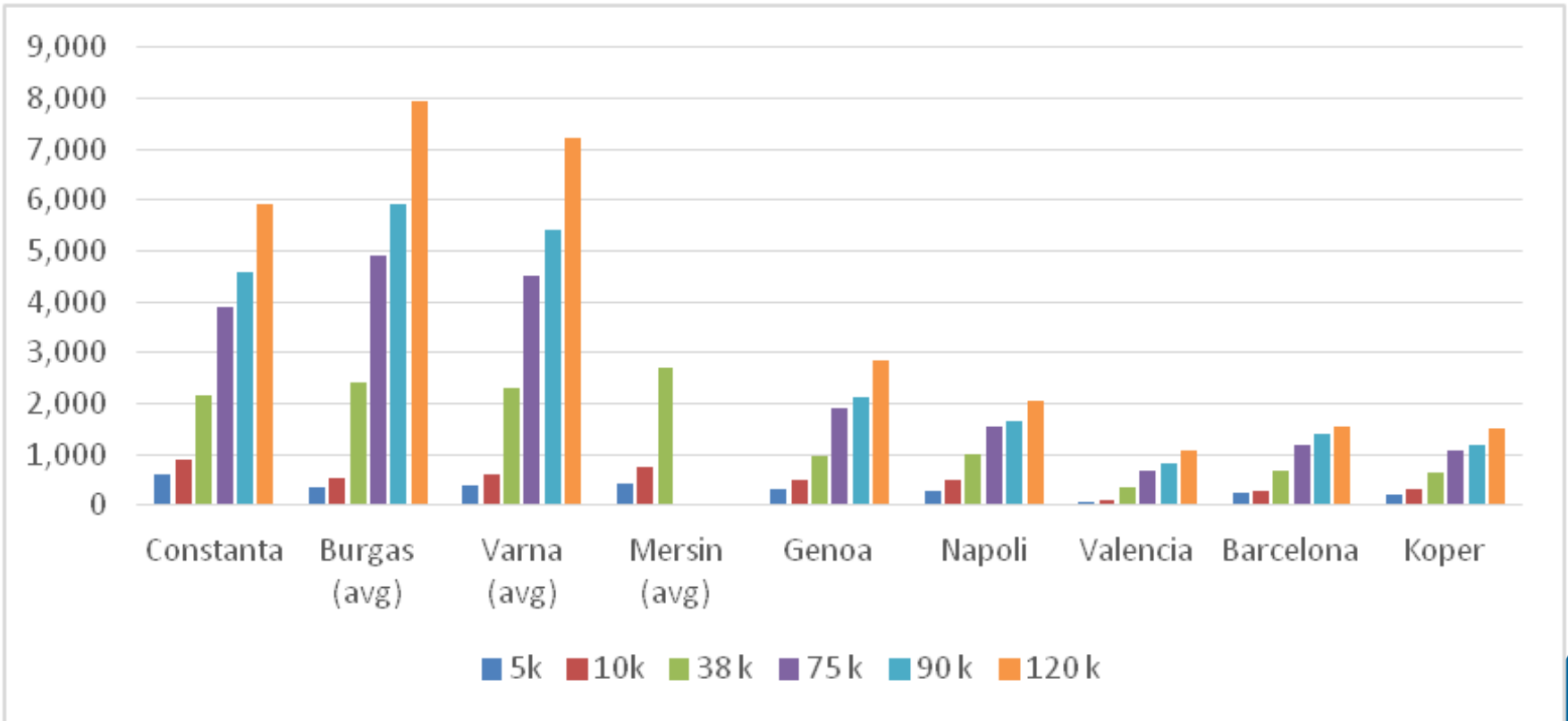
Tools of analysis (qualitative and quantitative)

- Policy **objective**
- **Comparative** research + International experience
- National and European **jurisprudence**
- **Economic** analysis
- Econometric and **data** analysis



Creation of new regulator Romania (recommended 2016)

- Creating a port regulator



Source: relevant port websites



How evaluate? Consider Greece (2013)

Out of all screened pieces of legislation (662) we excluded cases (145) of:

- Specific public policy objectives (e.g. Casinos)
- State income from exploitation of natural resources (e.g. levies on fish auctions)
- Social policy (e.g. street markets licensing)
- Harmonised with EU legislation
- Taxation
- Administrative burdens



Laws analysed: Greece (2013)

	Food processing	Retail trade	Building materials	Tourism	Horizontal legislation	Total
Recommendations made	54	129	32	76	38	329
Administrative burden	1	15	1	19	4	40
No recommendations for change	45	66	13	37	25	186
Total	100	210	46	132	67	555

329 recommendations out of 555 pieces of legislation



Quantify potential benefits: Greece (2013)

Issue	Benefit	Number of provisions affected	Value, EUR m
"Fresh" milk	€33m (consumer benefit/year)	2	33.0
Levy on flour	€8m-11m (value of levy/year)	1	8.0
Sunday trading	30 000 new jobs	3	
Sunday trading	€2.5bn (annual expenditure)		2 500.0
Sales and discounts	€740m (annual turnover)	9	740.0
OTCs	€102m (consumer benefit/year)	23	102.0
Marinas	€2.3m (annual turnover)	10	2.3
Cruise business	€65m (annual turnover)	4	65.0
Advertising	€1.8b (consumer benefit/year)	14	1 800.0



Legislative change

Greece 2013/2014/2016, Romania

- **Example: Omnibus legislation** passed by Parliament at the end of March 2014
 - 80% of OECD recommendations reportedly addressed in Greek legislation
 - EU, ECB and IMF reportedly required passage of OECD recommendations as condition for release of tranche



Mexico: Medicines 2018

- In filling prescriptions, pharmacists must sell the branded drug, unless substitution is expressly allowed in the prescription
 - Default generic substitution?
 - Require generic prescriptions?
 - Benefits: MXN up to 34 544 million MXN (2.4b USD at time of study)



Estimated impacts by set of recommendations, USD

Report	Low	High	Average
Greece, 2013	--	--	6,463m
Greece, 2017			514m
Mexico, 2018	552m	2,386m	1,469m
Romania, 2016			539m
TOTAL			8,985m



Conclusions

- Anti-competitive regulations generate substantial consumer impacts, e.g. by raising prices, limiting choice
- An operational method can be applied to review stock and flow of regulations, developed from industrial organisation research
- More than 15 sectors have been reviewed by OECD
- Potential benefits of applying recommendations exceed USD 8b
- Worth comparing cartels and anti-competitive regulation, both with impacts of about 20% prices