Integrating Competition into Government Measures

Margarida Matos Rosa

OECD High-Level Symposium Pro-Competitive Policies for a Sustainable Economy, Jan. 23, 2023

(please check against delivery)

Good afternoon.

Let me congratulate the OECD for organizing this cross-policy debate and for engaging with policymakers on matters that are currently among their priorities.

The topic of this discussion – Integrating Competition into Government Measures - has been **a priority at the Portuguese Competition Authority** (the AdC).

And why is this?

High stakes for policymakers

There have been **high stakes for policymakers** in the past 3 years.

Not only did they have to support firms and people throughout a very serious pandemic,

But they then also had to jumpstart the economy again through very **uncertain scenarios**.

Scenarios where we experience **supply-side bottlenecks, labor shortages, inflationary pressures and the economic constraints resulting from the war in Ukraine**.

Moreover, policymakers have been facing the challenge of **prompting the digital and the green transitions**.

Competition as part of the solution

Even though **competition** is not the magic solution to all these challenges, it **can be part of the response**.

Competition principles can **foster a sustainable and resilient growth that benefits citizens**.

Because citizens are at **the heart of competition policy** – be it as consumers, as workers or as entrepreneurs.

And there are several reasons why **we should aim to maintain markets competitive**, and even more so in times of uncertainty:

- They are more **flexible and resilient**
- They **respond faster and more effectively to economic disruptions**
- They can help **protecting the most vulnerable**
- And they **promote innovation and economic growth**

Competition delivers **better market outcomes, that benefits us all**.

This is particularly necessary today as **households are under so much pressure**.

So, the role of competition agencies, besides actively enforcing their powers, can be one of **contributing to an informed decision** by those who design and implement policies to address the current economic issues.

For that, **we need go beyond policy silos and to engage in cross-policy dialogue, as we are doing today**.

As I **look across this room**, I see distinguished representatives from a diversity of policy areas.

And in each one of them, **competition policy can have an impact for the better**.

Competition and green objectives

Many of you are already redesigning your policies in order to make them more environmentally sustainable.

I would like to say that competition can assist in several dimensions.

First and foremost, because the green transition will require the development of new technology and products.

Indeed, innovation is at the core of much of the green transformation we aspire to.

Competition, in turn, is a **major driver of incentives to innovate**.

This will be increasingly so the more consumers value green.

And currently, we see that there is an **increasingly large number of sustainability-conscious consumers**.

Their concerns are reflected in their choices and purchases. So, this is good news for our sustainability goals.

What else can competition bring to this goal? Well, we know that much of the innovation we need will **likely be driven by disrupters.** And this is more easily achievable in a competitive environment.

Indeed, firms respond better and more promptly to consumer demand when they operate in a competitive environment, where markets are contestable.

We thus need to make sure that markets do not fall short of their full potential.

In order to comply with our mission, we should **protect** the competitive environment that prompts firms' incentives to invest in green, that fosters contestability and that releases markets from unnecessary barriers.

But let me stress yet another angle.

Competition can assist in delivering the green transition **at the lowest possible cost**.

Think, for example, how outcomes can be optimized through competitive tenders.

Or in the **firms' drive to spend less energy**, reducing and reusing waste, or using renewable or more durable inputs.

At the core of the dynamics behind these incentives is competition.

Firms want to have an edge over their rivals, so they compete fiercely either through costs or quality and innovation, or both. And this, in turn, benefits consumers via lower prices, better quality, and more variety.

And that is true for all consumers – be it households, firms or the state.

Competition and state support

However, there is a consensus amongst policy makers that firms' investment alone is not sufficient.

That to support green objectives, there will have to be large scale public investment. For example, through subsidies for renewable energy technologies.

And there, competitive neutrality and tendering in the deployment of state support is key to maintain the level playing field.

That, in turn, will provide the grounds for efficient and competitive markets, that are able to do their part in our quest – be it green objectives or growth and recovery.

Competition and inflation

Let me now address those of you in charge of macroeconomic policies, in times of inflation.

As well as those facing the **strain that inflation has put in state budgets**. That's probably all of us in the room.

High inflation is a challenge that is unknown to many in the room, especially if you cannot recall the seventies.

I want to say that competition policy can help address **high inflation over the longer run.** It is actually a very powerful tool, even though it is not aimed at addressing surging inflation in the short-term. That is for monetary policy.

Competition can have an important role in protecting purchasing power in times of inflation and mitigating the impact of inflation on households.

How can it do so?

First, through enforcement. Dismantling powerful cartels that raise prices across so many sectors.

Recent **estimates by the European Commission** show that customer savings directly arising from competition enforcement to be around EUR 12-21 billion per year.

These estimates do not account for **indirect deterrence effects.**

They also don't consider the **multiplier effect**, through input price reductions, that **generates savings across the whole value chain**.

So, this is only the tip of the iceberg, as the Commission puts it.

Second, through merger control. **Merger control** is a tool that avoids too much concentration in a given market. Because concentration yields to market power. And market power yields to higher prices.

Third, and last but not least, competition authorities make **recommendations** that address unnecessary bottlenecks. To be clear, unnecessary barriers, namely in our many laws and regulations.

There are good reasons to pursue pro-competitive amendments in the current context.

Such reform can be key in allowing markets to react to the supply shortages that contributed to the current inflationary trend in the first place.

And it can also amplify the **effectiveness of the policy stimuli**, by reducing the degree of price stickiness.

This is particularly relevant in Europe, where many studies have shown that prices tend to be stickier than in the US.

Furthermore, in the role of the state as a procurer, competition can help avoid waste.

Estimates have placed the overcharge of cartels in public procurement in the ranges of 10-15% to 20-30% of the value of the contact.

Combating cartels and promoting competition in public procurement will allow scarce resources to be allocated to better ends.

Competition and growth

Finally, let me make the case for **embedding competition as much as possible in different policy areas**.

By integrating competition principles in other policies, governments and supranational institutions can achieve a stronger foundation for a resilient and sustainable economic growth.

That means, for example, **ensuring that investment does not inadvertently distort competition conditions** in the markets. In other words, ensuring competitive neutrality among firms in a given market.

Competition policy provides leverage for growth. Resilient growth. And that is why, at the International Competition Network, we have been dedicating time to Growth and Recovery.

The role of competition authorities in multi-policy dialogue

To do their **fair share and assist policy makers in designing pro-competitive industrial policies** – be it for green or growth, or green growth - **competition authorities need to reach out and advocate to governments and sector regulators**.

This requires **keeping an eye on policy developments**: on the legislation and regulation being produced and on growth and green public policies and plans; to ensure we **get the timing right**.

This an area to which the **AdC has been devoting much effort** in the past years.

Every year we issue, on average, **over 20 reports, market inquiries, opinions, and recommendations to public decision makers**, covering virtually every sector of the Portuguese economy.

The AdC also keeps a **continuous dialogue with sector regulators** and participates in the public consultations they launch.

But let me give some **concrete examples**.

In August 2022, as public decision makers were facing the surge in energy prices and inflation, the **AdC sent a note, to the government, addressing the interplay between competition and inflation**.

In the note, we highlighted the **benefits that a more competitive economy can have in protecting the purchasing power of households**.

We also informed about the **risks for competition of public measures such as price caps**, which we know are more likely to be introduced in times of inflation.

Risks, for example, in terms of the exit of firms from the market.

In June 2021, the **AdC sent a Report to the Government, with a set of competition principles to be considered in the design of the Resilience and Recovery Plan**.

As the plan envisaged capital injections in the national economy to mitigate the social impact of the Covid-19 crisis, the AdC advocated for the competitive neutrality of state support;

The AdC also advocated that state support should target firms experiencing distress as a result of the pandemic, rather than zombie firms, that were already dragging before the Covid 19 crisis;

The AdC also argued that this represented an opportunity to implement several recommendations that it issued over the years, across sectors;

The recommendations aimed at removing unnecessary barriers to entry and expansion, and could boost growth and recovery.

The sectors covered by these recommendations span from energy, road, rail, maritime and port sectors, access to self-regulated professions; fintech business models, amongst others.

Let me highlight, for example:

The recommendation for **competitive neutrality in the choice of the means of payment accepted by the State**, that can promote a diversified and competitive ecosystem in the market;

But also, the recommendations aimed at **reducing barriers to access to liberal professions**, that would promote the competitiveness of the Portuguese economy through savings along the value chain;

Or the recommendations to **increase the integration between the Portuguese and the Spanish wholesale gas markets, that could bring about efficiency gains and cost reductions**;

But let me also mention, for their relevance for green growth:

The **recommendation issued by the AdC in 2019 regarding the framework of electric vehicle charging**, and how it could be improved to foster demand.

The opinions on **the design of auctions for solar energy licenses**, focused on obtaining the most competitive outcome for the Government.

Or those that advocated for **the removal of barriers to entry to producers of renewable electricity and of distributed electricity generation**.

And these are only some examples of a wide array of advocacy initiatives, aimed at promoting the incorporation competition principles in public policies.

So that the focus is on a sustainable and inclusive growth pattern for our economies.

And for that, markets must be open and competitive.