

COMPETITION POLICY & ECONOMIC DEVELOPMENT

GENERAL LECTURE, UNAIR
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Outline of Presentation

1. An Introduction: what is and why we need competition; The Essence of Competition, Economics Paradigm; Component of CP
2. Indonesia Context
Background, Objectives of Law No. 5/1999, KPPU and its Mandate, Scope of the Law, Prohibited Conducts;
3. Challenges;
4. Potential Roles for Academic to Play

I. Introduction

What is Competition Policy?

Competition policy defined as a set of policies and instruments intended to encourage competition in markets and to encourage the allocative efficiency that generally accompanies competition.

What is Competition Policy?

- CP covers two elements. The first involving a set of policies that promotes competition in local and national markets, such as relaxed industrial policy, trade policy, easy exit and entry conditions, reduced controls and greater reliance on market forces.
- The second one, considered most critical, comprises legislation, judicial decisions and regulations specifically aimed at preventing anticompetitive business practices, avoiding concentration and abuse of market power.

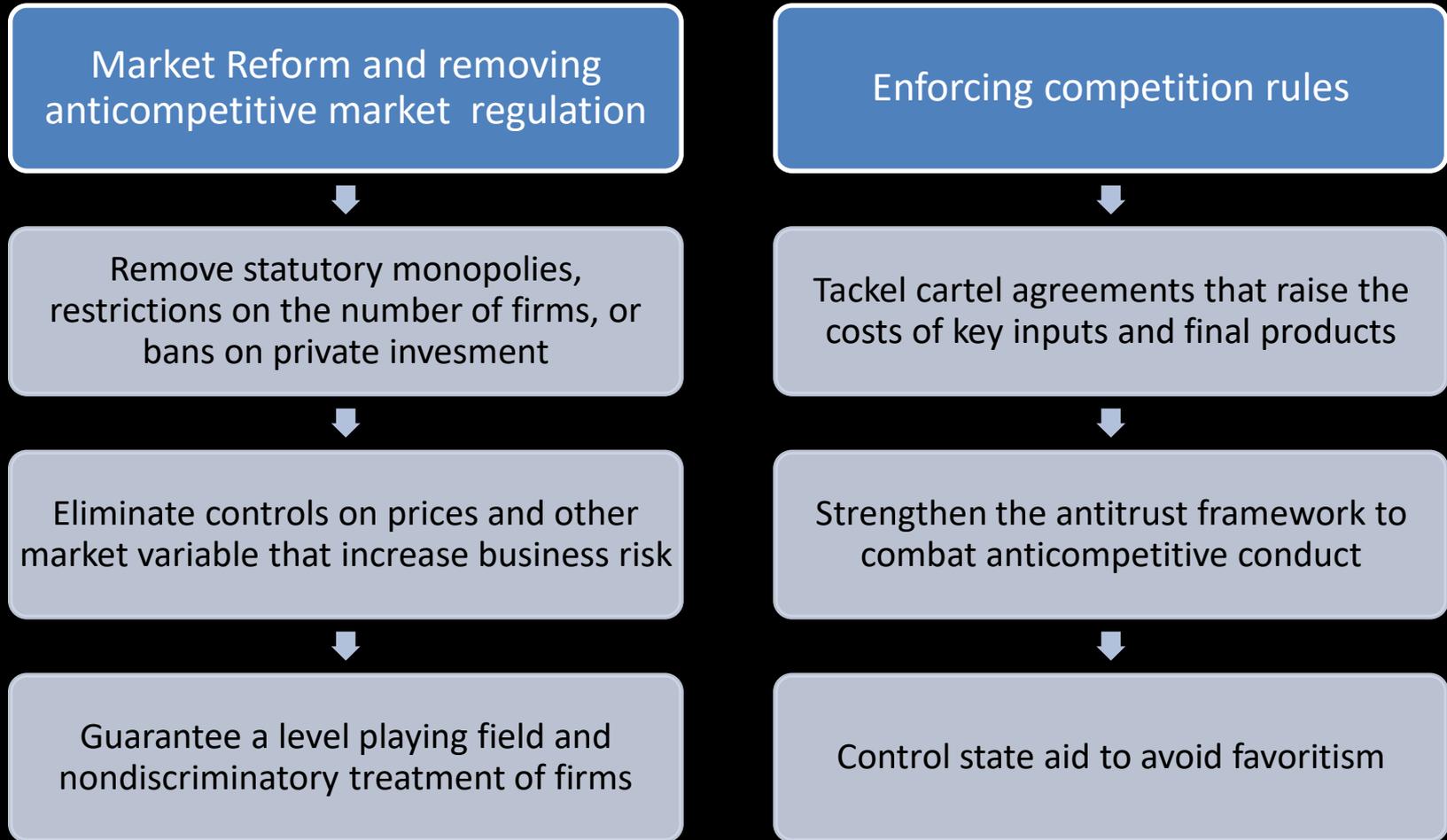
Elements of CPL

1. Anti Trust Law;
2. Merger Control Policy;
2. Government Policies related to trade, investment, fiscal and monetary, sector specific policies, ect.

Paradigm of CPL

- *Harvard School of Thought:*
Structure → Conduct → Performance
- *Chicago School of Thought:*
Structure does not matter → most important thing is the Contestability of the market;
- * *Post Chicago:* focus on consumer loss

Competition Policies Generally in Practice



II. Why We Need COMPETITION LAW & POLICIES

Reasons for competition

- Disciplining managers
- Improve efficiency
- Increasing investment by removing barriers
- Providing choices for consumers
- Reinforcing incentives for innovation
- Speeding the adoption of new technology
- and assisting adjustment external shocks

Benefits throughout the supply chain

Primary Producers

- Better access to markets for their produce
- Reduced costs in the downstream supply chain

Intermediate businesses

- Lower input costs improves business competitiveness
- Broader range and better quality inputs

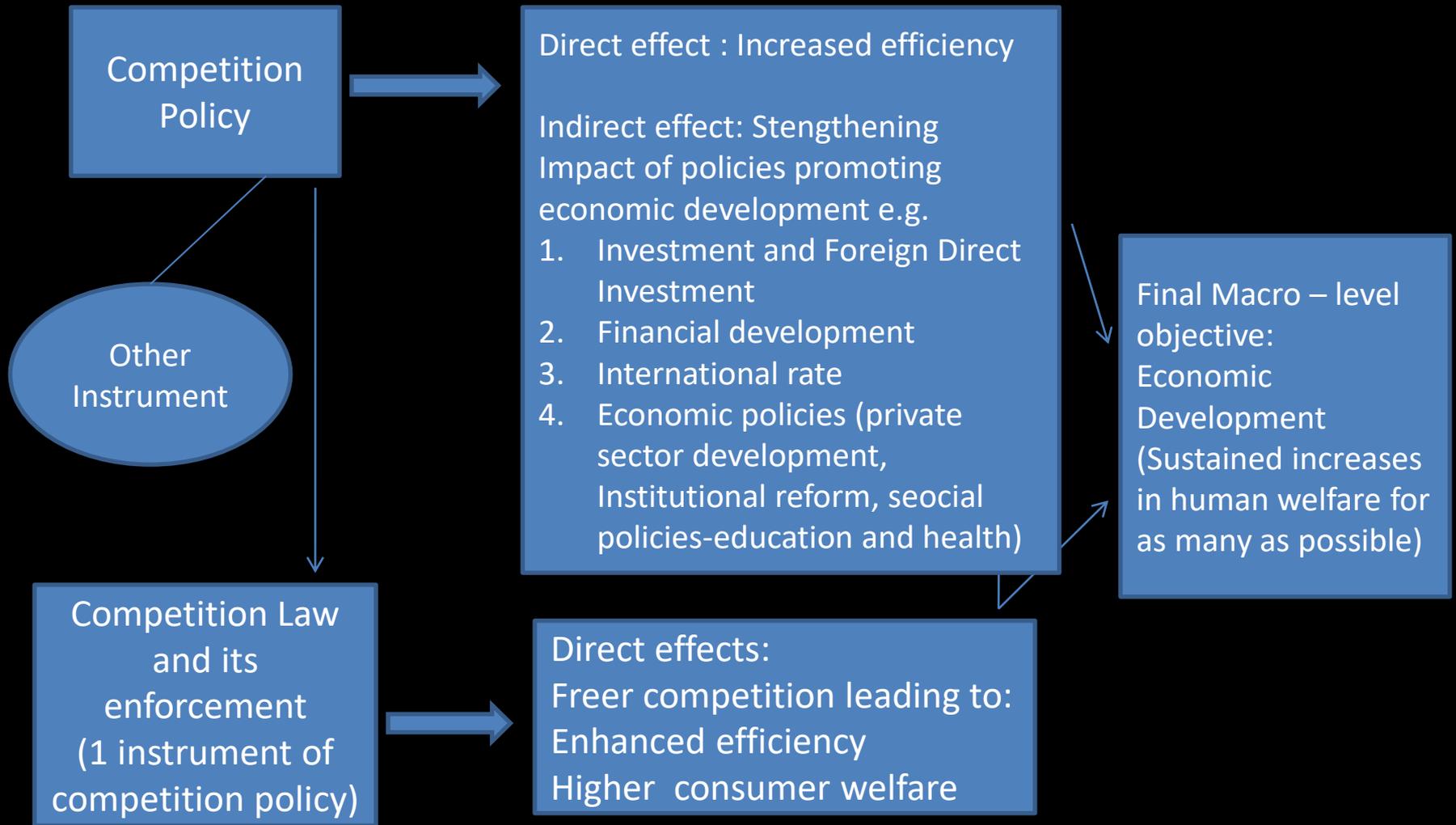
Final consumers

- Greater choice
- Lower costs and greater affordability of product and service

Competition-related Growth drivers

Growth	Description
1. Resource efficiency effect	Competition provides an incentive to cut costs and remain competitive
2. Replacement effect	Competition allows efficient companies to replace inefficient competitors.
3. Innovation effect	Competition gives companies the incentive to innovate, to differentiate themselves and their products from competitors and to gain a competitive edge.
4. Investment	Investments are necessary to innovate and to build capital, including human capital, all leading to economic growth
5. Public goods	A service of General Economic Interest may be underprovided for in a market with effective competition, because investment decisions are made without taking positive externalities, e.g. The effect of reducing pollution or providing education, into account.
6. Price effect	Lower price mean in general higher real wages and higher standard of living
7. Market widening	Competition on a wide market, e.g. On a better functioning single market, is likely to be more effective and enhance the beneficial effects from competition.

Relationship between competition policy and economic development



III.

***Empirical Evidences on the
Effects of Competition
Policy Enforcement***

Agribusiness: Effect of Competition Policy Reforms (1)

Sector & Country	Study	Reform	Effect
Kenya	Jayne and Argwings-Kodhek 1997	Opening of market and elimination of price controls for maize	Consumer saving of US\$ 10.1 million a year (due to lower milling costs)
Kenya, Mozambique, and Zimbabwe	Jayne and other 1996	Elimination of controls on private trade and development of alternative marketing channels in the maize market	Increase in market share of whole maize, provided by private millers, from 8% to about 49% in Zimbabwe and from 10% to 35% in Kenya
Togo	Akiyama, Baffes, and Larson 2001	Elimination of monopolistic commodity boards in coffee	Increase in share of export unit value of growers received from less than 30% to 80%

Transportation: Effect of Competition Policy Reform (2)

Sector & Country	Study	Reform	Effect
Lao PDR	Arnold 2005	Breaking up of Lao PDR trucking cartel and opening of transit to all Thai truckers	Reduction in logistic costs on Bangkok-Vientiane route of 30%
Mexico	Ros 2011	Opening of air transport and routes to low-cost entrants	Reduction in air fare of up to 37% (on route served by low-cost carriers)
Cross-Country panel	Micco 2004	Improvement in the quality of air transport regulation introduction of “open skies” agreement to foster competition	Reduction in transport costs 14% Reduction in transport costs 8&=%

Retail and Services: Effect of Competition Policy Reforms (3)

Policy Area & Country	Study	Reform	Effect
Ukraine	Shepotolyo and Vakhitov 2012	Liberalization of service	Increase in total factor productivity of 3.6%
India	Amin forthcoming	Opening of retail market to competition	Increase in labor productivity of as much as 87%
United State	Goos 2005	Deregulation of shop opening hours	Increas in employment of 4.4-6.4% and in total reveneu of 3.9-10.7% in deregulation industries
United Kingdom	Maher and Wise 2005	Liberalization and pro-competition regulations in gas, water, and electricity	Increase in productivity growth of more than 10%

Fighting Cartels: Effect of Competition Policy Enforcement (4)

Sector & Country	Study	Reform	Effect
United Kingdom	Symoenidis 2008	Introduction of cartel law (the Restrictive Trade Practices Act) in 1956	With intensification of price competition, closure of a 20-30 percentage point gap in labor productivity growth between cartelized and competitive industries
United State	Werden 2008	Cartel enforcement	Total consumer saving in 2000-7 estimated at about US\$1.85 billion
United State	Block, Nold, and Sidak 1981	Higher level of enforcement (as approximated by changes in budget of competition authority)	Reduction in Price markups

AntiTrust Enforcement Effect on sectoral level (5)

Sector & Country	Study	Reform	Effect
Merger control			
Netherlands	Postema, Goppelsroader, and Bergeijk 2006	Merger control	Net benefits to society estimated at about 100 million a year
Competitive neutrality policies			
Australia	Australia Productivity Commission 2005	Elimination of anticompetitive regional policies; introduction of competitive neutrality principles	Drop in average real electricity price of 19%, in rail freight rates 8-42%, and in real port charge of up to £ 50%; increase in GDP of 2.5%

What about Indonesia?

Many competition cases have been handled and should provided various positive impact to the economy, but less research based empirical evidence has been done;

IV. INDONESIA CONTEXT

Objectives of Law No. 5/1999

Protection of public interest, efficiency improvement for people welfare

Equal business opportunities

To prevent monopolistic practices

Business Efficiency and Effectiveness

KPPU Mandate

To Supervise the Implementation of Law No. 5/ 1999

Policy
Advokca
cy

Law
Enforce
ment

Merger
Control

Supervisin
g Business
Partnership

Scope of Law No. 5/ 1999



KETENTUAN UMUM	Pasal 1
ASAS DAN TUJUAN	Pasal 2-3
PERJANJIAN YANG DILARANG	Pasal 4-16
KEGIATAN YANG DILARANG	Pasal 17-24
POSISI DOMINAN	Pasal 25-29
KOMISI PENGAWAS PERSAINGAN USAHA	Pasal 30-37
TATA CARA PENANGANAN PERKARA	Pasal 38-49
PENGECEUALIAN	Pasal 50-51

Prohibited Conducts

1. HORIZONTAL RESTRAINTS:

- * Unilateral: monopolistic practices, abuse of dominant;
- * Collusion: cartels (price, supply, market divisions), bid rigging

2. VERTICAL RESTRAINTS: RPM, discrimination;

3. EXCLUSIONARY PRACTICES: predatory, excessive pricing, exclusive dealing, tying and bundling, refusal to supply, refusal to deal;

Economics and Law Approaches

- Per-Se Rules: ones it prohibited, there is no need to prove the impact;
- Rule of Reasons: competition authorities have to prove that anti competitive conducts have significant impact to the market. It needs wide economic analysis to prove the impact;

Achievements

- Cases, policy reforms, merger review;
- Competition indexes have improved but regulatory index worsen;
- More market concentration as the impact of enforcement due to two reasons: (1) inefficient firms out from the market, (2) but there is no significant improvement on entry conditions on most of the industry;
- Cartel facilitated by government policies

Challenges

- Developing policy coherency;
- Rapid changes on technology and business models (i.e. destructive innovation);
- Legal issues concerning the need to adjust the law;
- Competition culture
- cross border enforcement;

Roles that Academic Can Play for

- Preparing human resources (program on competition economics and law);
- Research based competition conception;
- Research based evidences concerning the advantages and or disadvantages of competition;
- Research based policy proposal for reforms;
- Competition culture;
- Competition Education Network

THANK YOU