



BETTER REGULATION FOR BETTER BUSINESS AND COMPETITION

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Agenda

- Regulation – the good, the bad and the ugly
- The OECD Regulatory Enforcement and Inspections Toolkit
- Competition Assessment
- Competition assessment promotes better regulation



Why do we need regulation?

- Markets do not always operate efficiently, need for state intervention = regulation
- Regulation can have beneficial effects for society
 - protection for consumers
 - health & safety in the work place
 - unequal bargaining power
- **However**, regulation can also distort competition by
 - preventing new firms entering a market
 - altering the ability and incentives of firms to compete
 - create unnecessary burdens to operate a business
- Important to identify unintended consequences of regulation

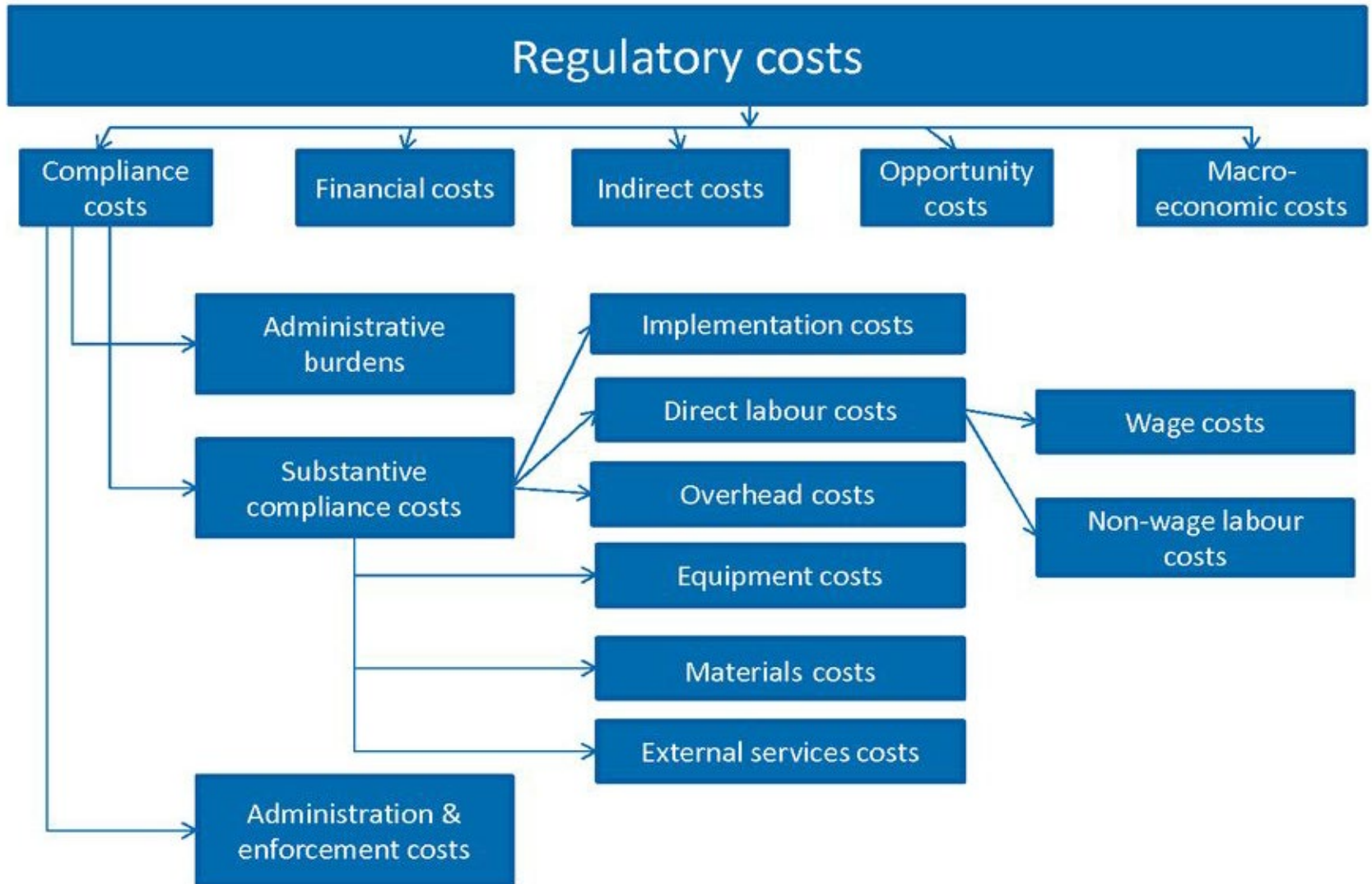


Regulations and their impact on markets

- Some of the harmful effects that may arise from the rules and regulations relate to
 - Unduly high cost burden on firms
 - Asymmetric costs across different types of firms
 - Erecting barriers to entry (stringent or unreasonable licensing rules, for instance)
 - Difficulty in marketing new products, hampering innovation
 - Removing incentives to compete
- In other words, **rules and regulations have the potential to cause harm to the efficient functioning of markets**
- In addition, too much regulation imposes costs



Taxonomy of regulatory costs





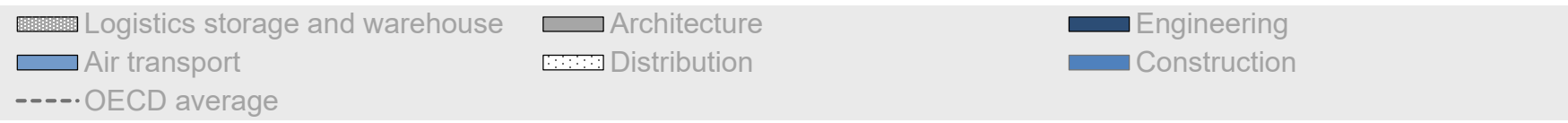
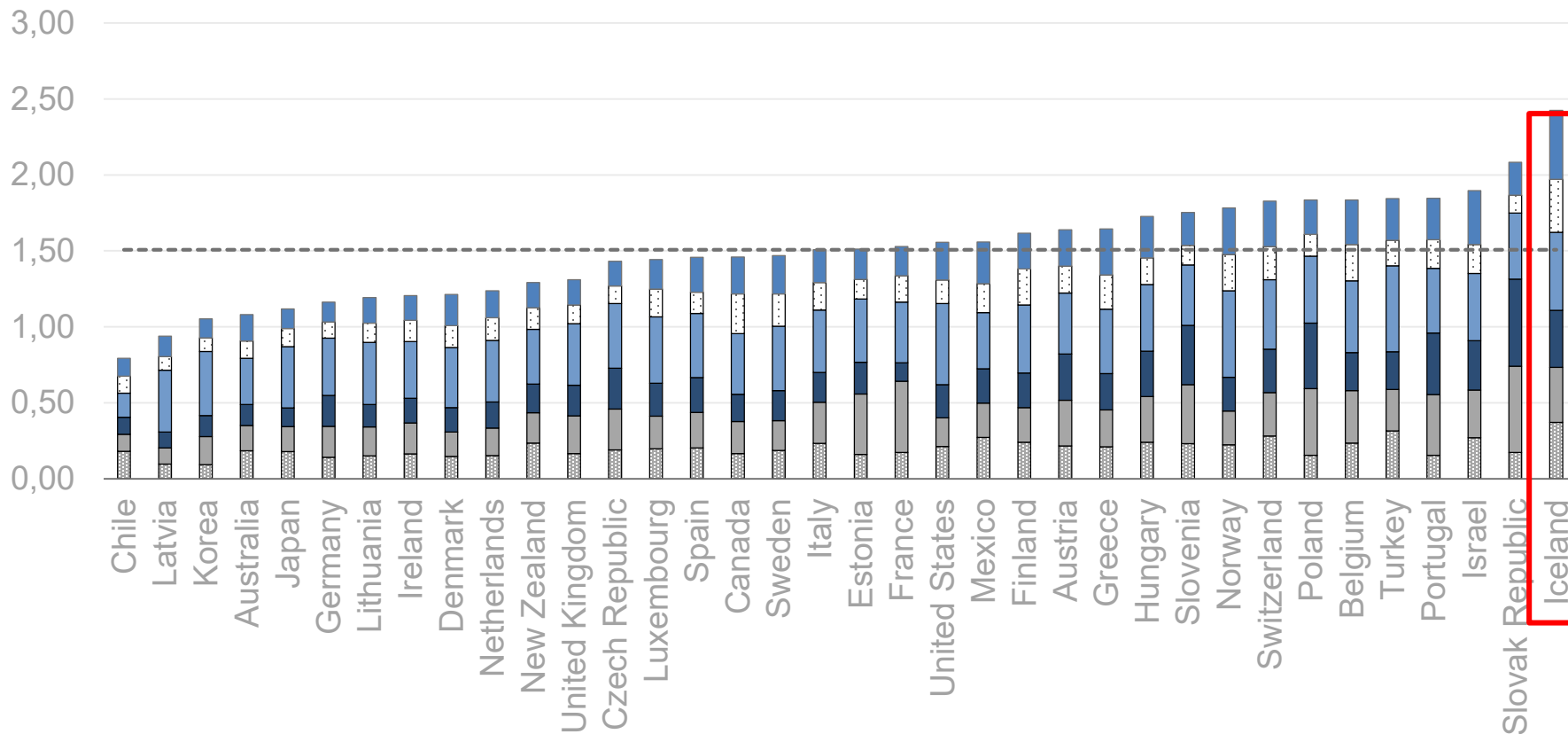
The cost of bad or burdensome regulation

In the EU, reducing administrative burdens by 25% raises

- GDP up to 1.7%
- Labour productivity by 1.5%
- In Australia, reduction in compliance costs by 20% can increase GDP by 1.3%
- Less “red tape” is associated with more entrepreneurship
- Simplification programmes can increase TFP by up to 0.6%
- On average, a 10% increase in regulatory restrictions
 - Up to 0.6% reduction in the total number of small firms;
 - Up to 0.5% reduction in total employment within small firms (Chambers et. al, 2016, Regulation, Entrepreneurship, and Firm Size)



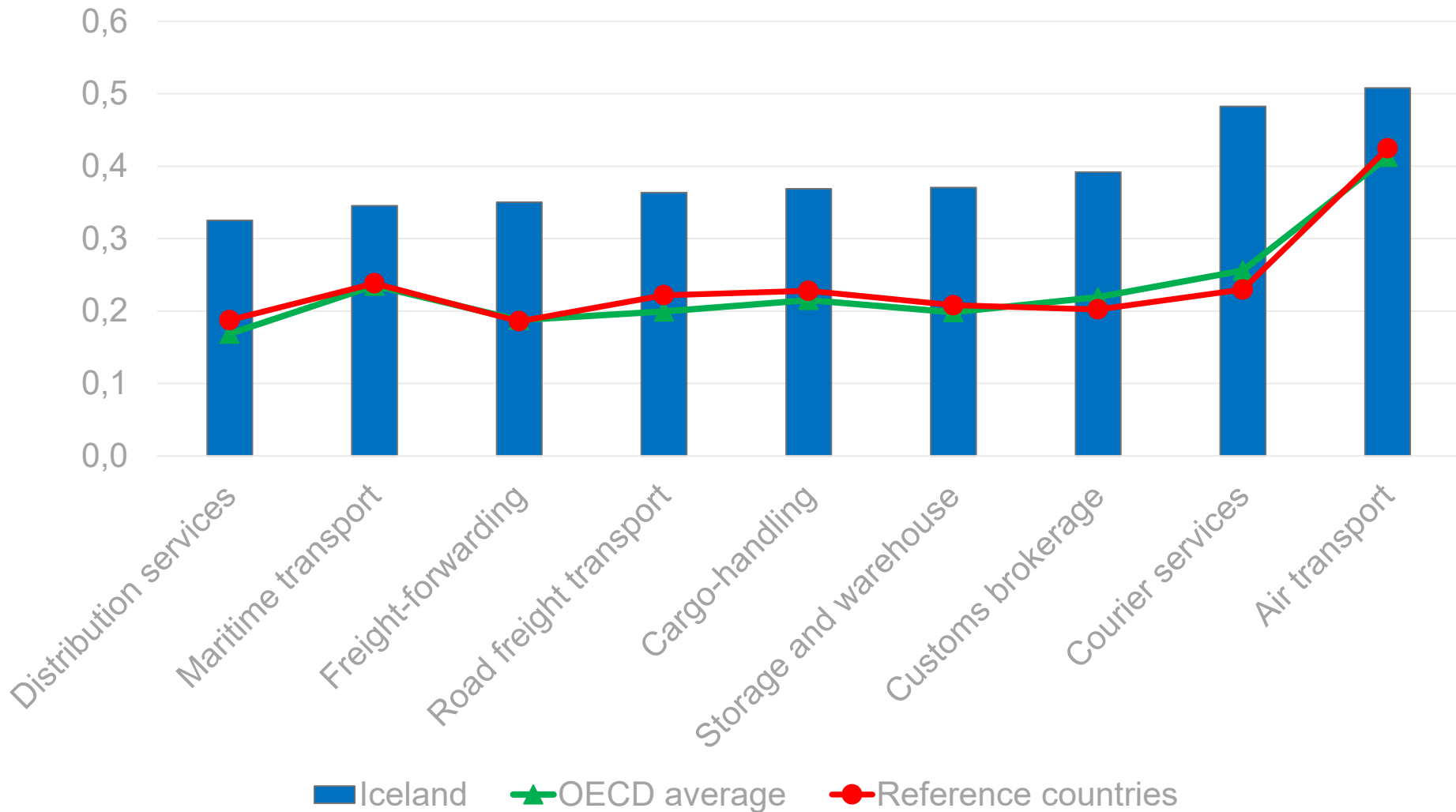
Services Trade Restrictiveness Index (STRI) 2017





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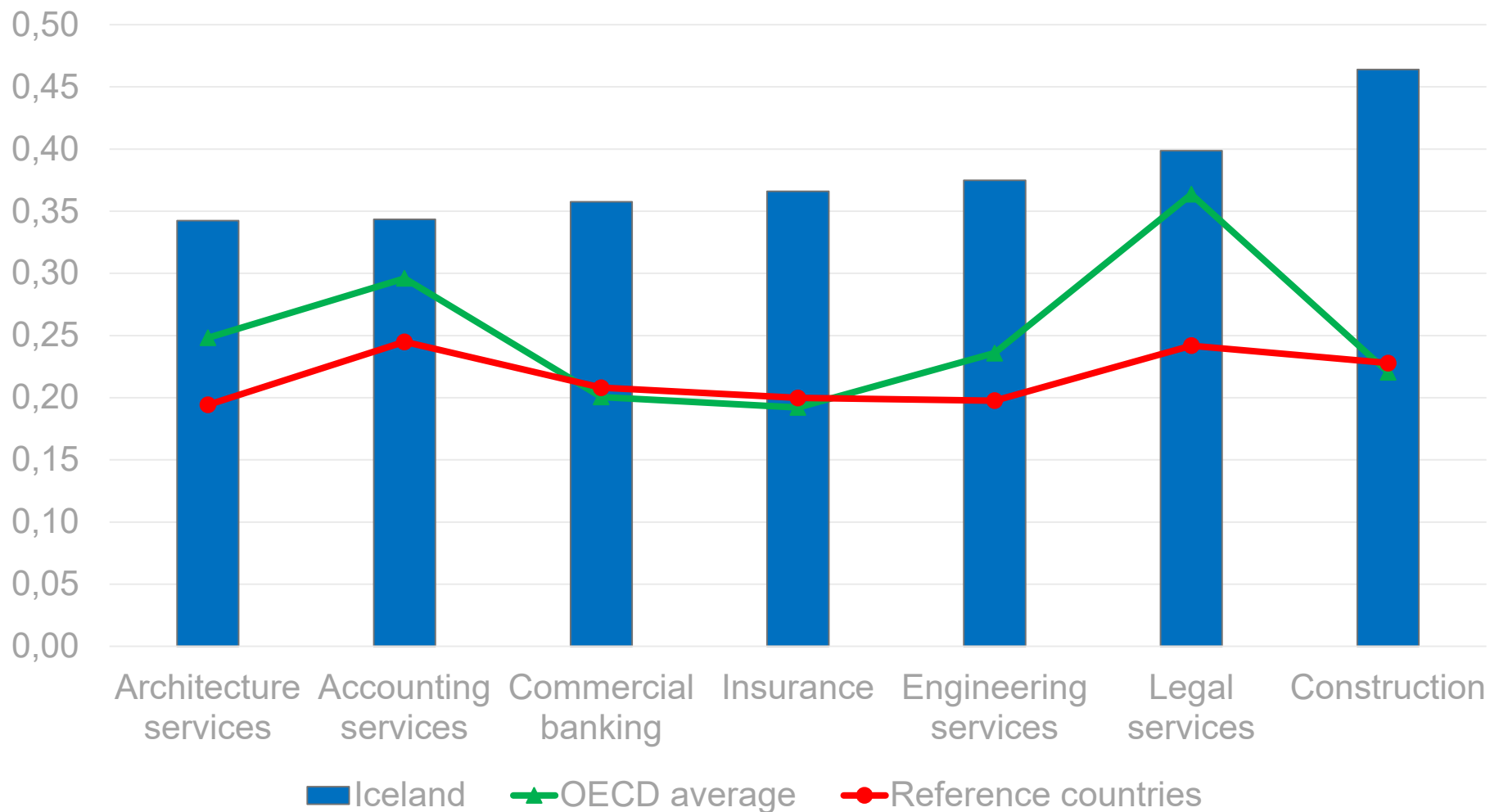
Transport and distribution supply chain





Services Trade Restrictiveness Index (STRI) 2017

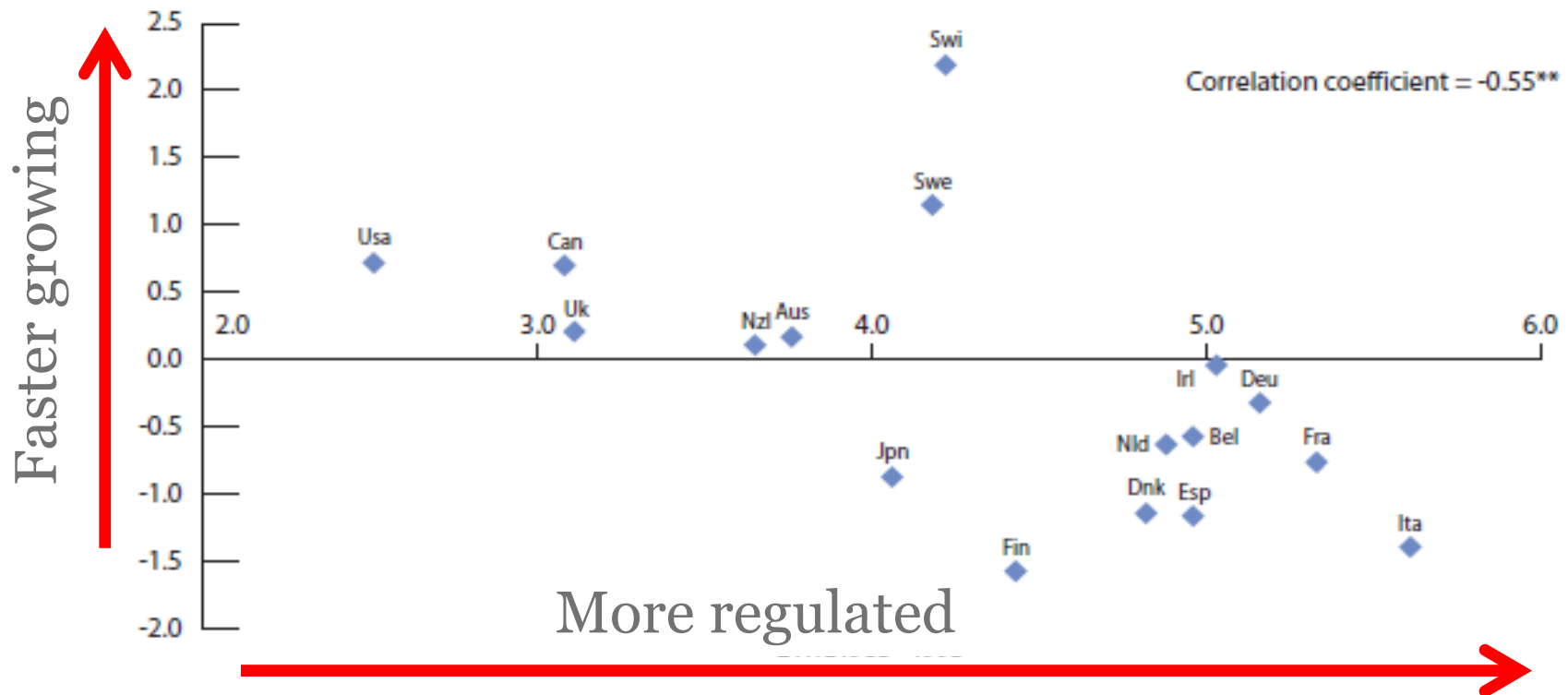
Market bridging and professional services





Regulation can stifle growth by hampering productivity

Increase in multi-factor productivity compared to regulatory stance



Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.



The OECD Regulatory Enforcement and Inspections Toolkit



The OECD Regulatory Enforcement and Inspections Toolkit

- Checklist of **12 criteria** to help officials, regulators, stakeholders and experts assess the level of development of:
 - the inspection and enforcement system in a given jurisdiction;
 - a particular institution or structure, to identify strengths and weaknesses, and potential areas for improvement.
- Builds on the Recommendation of the Council on Regulatory and Policy Governance
 - Aims to promote regulatory reforms and implementation of sound regulatory practices across the whole of government.



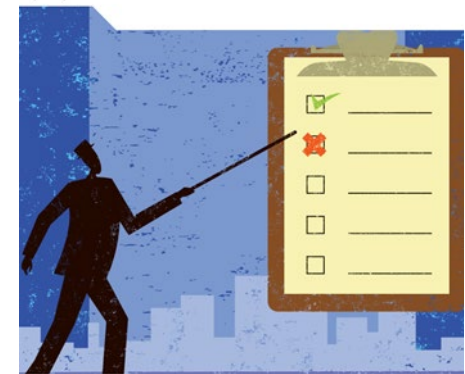
The OECD Regulatory Enforcement and Inspections Toolkit

1. Evidence-based enforcement
2. Selectivity
3. Risk focus and proportionality
4. Responsive regulation
5. Long-term vision
6. Co-ordination and consolidation
7. Transparent and governance
8. Information integration
9. Clear and fair process
10. Compliance promotion
11. Professionalism
12. Reality check



OECD Best Practice Principles
for Regulatory Policy

**Regulatory Enforcement
and Inspections**





Competition Assessment



Why do we need an **assessments**?

- Some of the factors relate to
 - Increasing realisation that markets may work reasonably well in many industries that traditionally have been heavily regulated
 - Change in technology and market conditions warrant re-evaluation of many types of regulations
 - Improved quality of regulations may lead to national economies becoming more competitive and innovative, and domestic firms being in a better position to compete globally
- The assessment process involves revision and improvement and should lead to positive change



Why **competition** assessment?

- The objective is to assess **the effect** of regulation on
 - Extent of competition in the markets
 - Incentives for firms to engage in innovative activity
 - Potential for growth of the markets
 - The (unintended) effect on consumers
- A different way of stating the objectives
 - We want to avoid restricting competition when making policy



Competition spurs productivity and growth

- More competitive industries have higher productivity *rates* and higher productivity *growth*
 - Competitive industries enjoy higher annual productivity growth (Nickell finds 2% gap)
- Virtuous Circle: as products became cheaper and better, consumers buy more and firms' turnover increases
- Leading to higher productivity and economic growth
 - EU single market increased productivity
 - Countries with stronger competition frameworks have higher growth (World Bank)



OECD Competition Assessment Toolkit

- Competition Assessment Toolkit (CAT) – 3 volumes
 - <http://www.oecd.org/daf/competition/assessment-toolkit.htm>

OECD Competition Assessment Toolkit
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Toolkit Principles
Volume 1 sets down the toolkit principles, describing benefits of competition, the checklist and examples of government processes.

Technical guidance
Volume 2 provides detailed technical guidance on key issues to consider when performing a competition assessment.

Operational manual
Volume 3 is an operational manual which provides a step-by-step process for performing competition assessment.

The toolkit in action
Translated into 17 languages, many countries use the Toolkit to identify regulators and policies that unnecessarily restrict competition in targeted sectors.

www.oecd.org/competition/toolkit • @OECD_BizFin • #OECDcomp

COMPETITION ASSESSMENT TOOLKIT

1 principles

OECD

COMPETITION ASSESSMENT TOOLKIT

2 guidance

OECD

COMPETITION ASSESSMENT TOOLKIT

3 operational manual

OECD



Competition assessment methodology: Step one

The Toolkit is constructed around a **two-step assessment process**

Step One: Initial Evaluation

Using Competition Assessment Checklist

- Does the Law or Regulation:
 - A. Limit the number or range of suppliers?
 - B. Limit the ability of suppliers to compete?
 - C. Reduce the incentive of suppliers to compete vigorously?
 - D. Restrict consumer choice?

Step Two: Full evaluation - Detailed review



Using the toolkit all over the world





Competition assessment promotes
better regulation



Competition Assessment and Regulations

Competition Assessment can help identify regulations that:

- Distort market prices
- Limit advertising and marketing
- Create entry and mobility barriers
- Grant or extend exclusive rights
- Restrict the flow of goods, services and capital
- Exempt specific businesses from competition laws
- Set standards and content
- Set grandfather clauses
- ...



Competition Assessment and Regulations

Competition assessment can also help identify:

- Unclear regulation
 - Criteria to get a licence; product standards ...
- Gaps in the legislation
 - E.g.: secondary legislation is missing
- Administrative burdens
 - Can work as an entry barrier
- Obsolete legislation



Two methodologies, similar questions

Enforcement and inspections	Competition Assessment
Are the practices enshrined in legislation put into practice?	Do regulations restrict competition?
Is there another way to achieve regulations' objectives?	Is it possible to achieve the same policy objective with another regulation more competition friendly?
Are the criteria to be fulfilled by the market players clear and transparent? Are there guidelines, toolkits and checklists?	Are the criteria to enter into the market, compete within the market, and exit from the market clear?
Is the feedback from enforcement and inspections taken into account when drafting new regulations?	Is the feedback from competition assessment taken into account when drafting new regulations?
...	...



OECD Competition Assessment:
Checking-up on Policies and Regulations

Thank you

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