

Competition Agencies and Competitiveness

Russell Pittman

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National champions?

- Competition agencies generally unsympathetic
 - The Porter hypothesis
 - Anti-dumping vs. predatory pricing
- Must economies of scale always outweigh competition?
 - Not with international trade
 - The best competition policy in a small country?

But even if the competition agency loses that debate...

- All businesses – even national champions – like competitive markets for inputs, complements
- Thus little conflict regarding anti-cartel policies
 - Industrial inputs: cement (Egypt, Romania), business IT systems (Hungary), sterilization/disinfection of goods (Slovenia), carcass disposal (Slovak Republic)
 - Consumer products: vegetable oil (Bulgaria), bus tickets (Croatia), meat (Hungary), insurance (Bulgaria, Hungary), hospital charges (Slovak Republic)
- Thus support for “competition advocacy”
 - Battle against protectionism
 - Battle to reduce bureaucratic “barriers to entry” and unnecessary regulations -- RIA

But what about abuse-of-dominance enforcement?

- Unexpected emphasis on “natural monopoly” sectors
- Telecoms, electricity, natural gas, railways
- Focus of government regulation in most countries
 - But CEE regulators less powerful than US, other older market economies
- Abuses of dominance
 - Monopoly pricing
 - Evasion of regulation – e.g. tying unregulated complementary goods
 - Surprisingly large share of CEE abuse enforcement actions

Going forward: “Natural monopolies” restructuring

- Possible to create competition, minimize regulation?
- Regulators typically lack power, also lack incentive
- U.S. v. AT&T as example
 - Electricity: generation
 - Natural gas: exploration and production
 - Railways: trains
 - Telecoms: mobile, internet service

Creating competition in “natural monopoly” sectors

- Dilemma: “production” can be demonopolized, but network remains a monopoly
- U.S. v. AT&T: “3rd party access” preserves vertical economies but may lead to discrimination; “Vertical separation” removes incentives to discriminate but also removes vertical economies

Our story so far...

- Experience still early, but...
- Not as easy as hoped to create competition
 - UK electricity, California electricity
 - UK rail, Mexican rail
 - Telecoms: How important is access to the fixed wire network?
 - Especially in small countries, more cross-border trading may be essential, e.g. SE Europe electricity