Towards a National Competition and Competitiveness Policy for Greece

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Prepared for HO Seminar, 29 Jan. 2019

Main reference

- "Product Market Regulation and Competitiveness: Toward a National Competition and Competitiveness Policy for Greece", Published in **"Beyond Austerity: Reforming the Greek Economy"**, Eds. Meghir K, C. Pissarides, D. Vayanos and N. Vettas. MIT Press (2017).

Introduction

- Paper focuses on the product markets in Greece and how to restore their competitiveness.

- One of the main determinants of competitiveness is the quality of the set of rules and regulations that govern the operation of markets.

- Regulations that are well designed, suitably applied, and effectively enforced, so they promote competition, investment, and entrepreneurship can make a country competitive and prosperous.

- Over-regulation is generally associated with creating inefficiencies and poor economic outcomes.

- Fundamental mechanism: regulatory burden reduces intensity of competition which in turn reduces allocative, productive and dynamic efficiency (innovation).

- The Greek economy is heavily regulated - *its markets are the most heavily regulated among the OECD countries*.

- Further, in Greece important regulations such as the *Competition Law and network industry regulations*, that could promote the good operation of markets have not been enforced effectively.

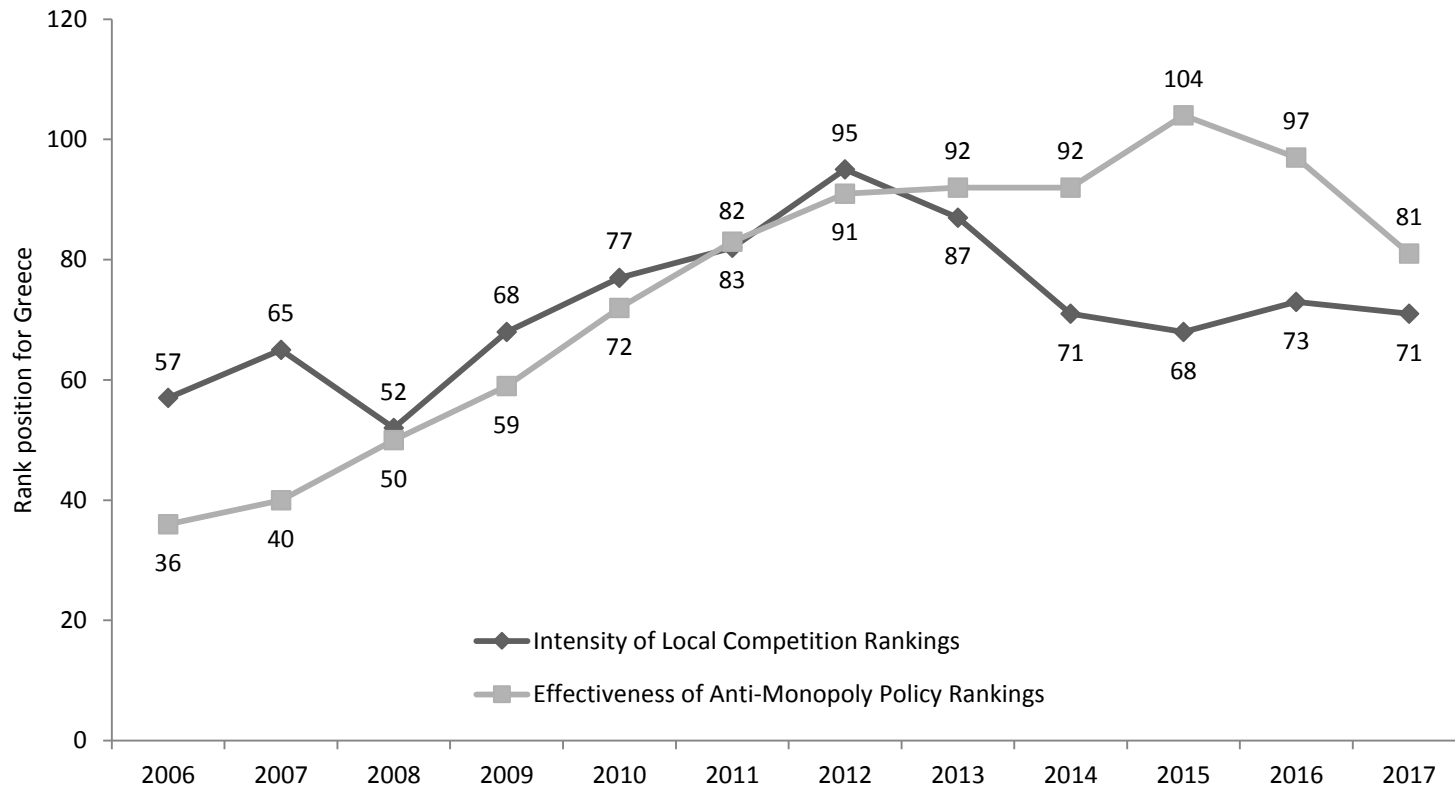- **The Greek economy through the lenses of the indicators of WEF, the WB and the OECD**

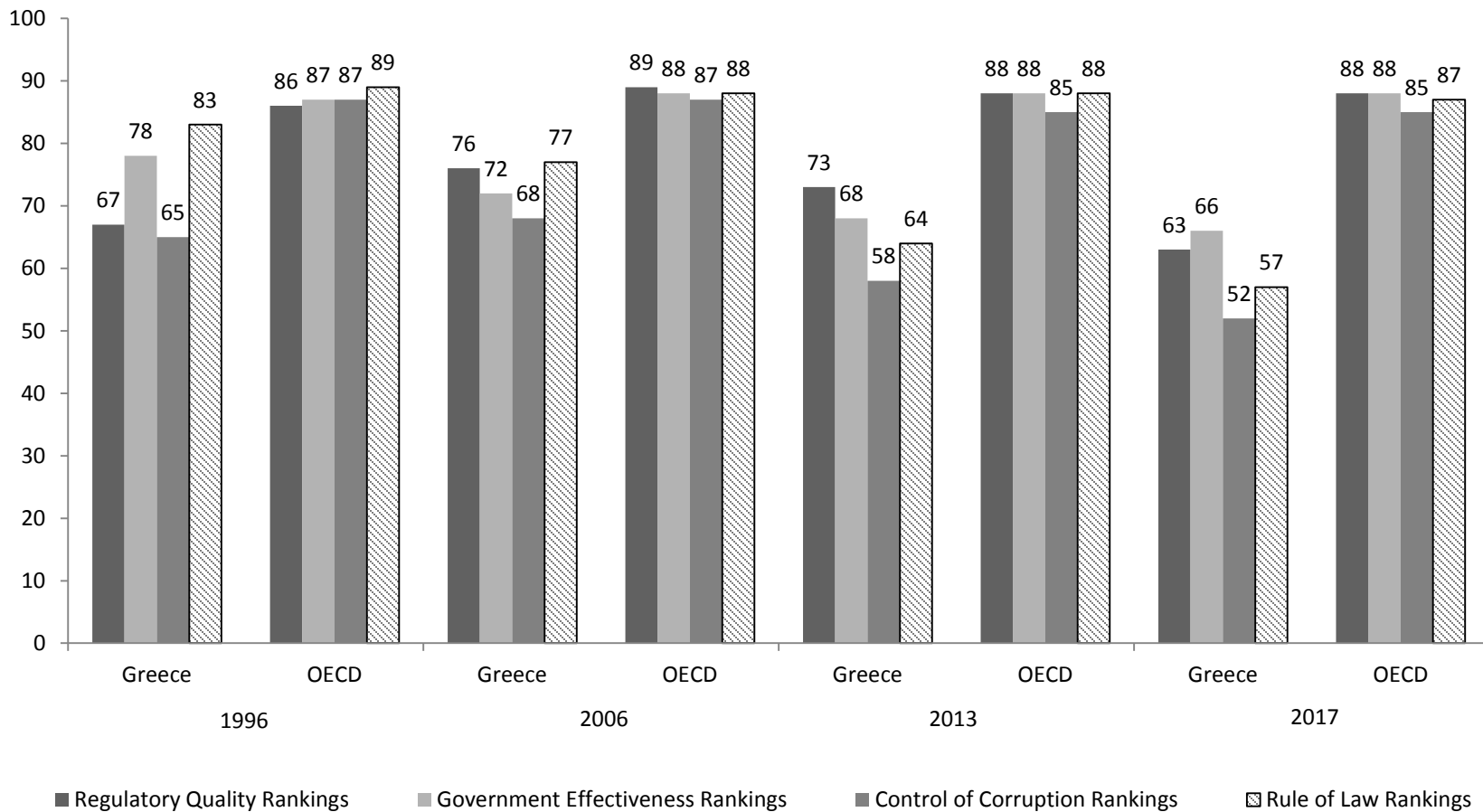# Indices of Competitiveness –
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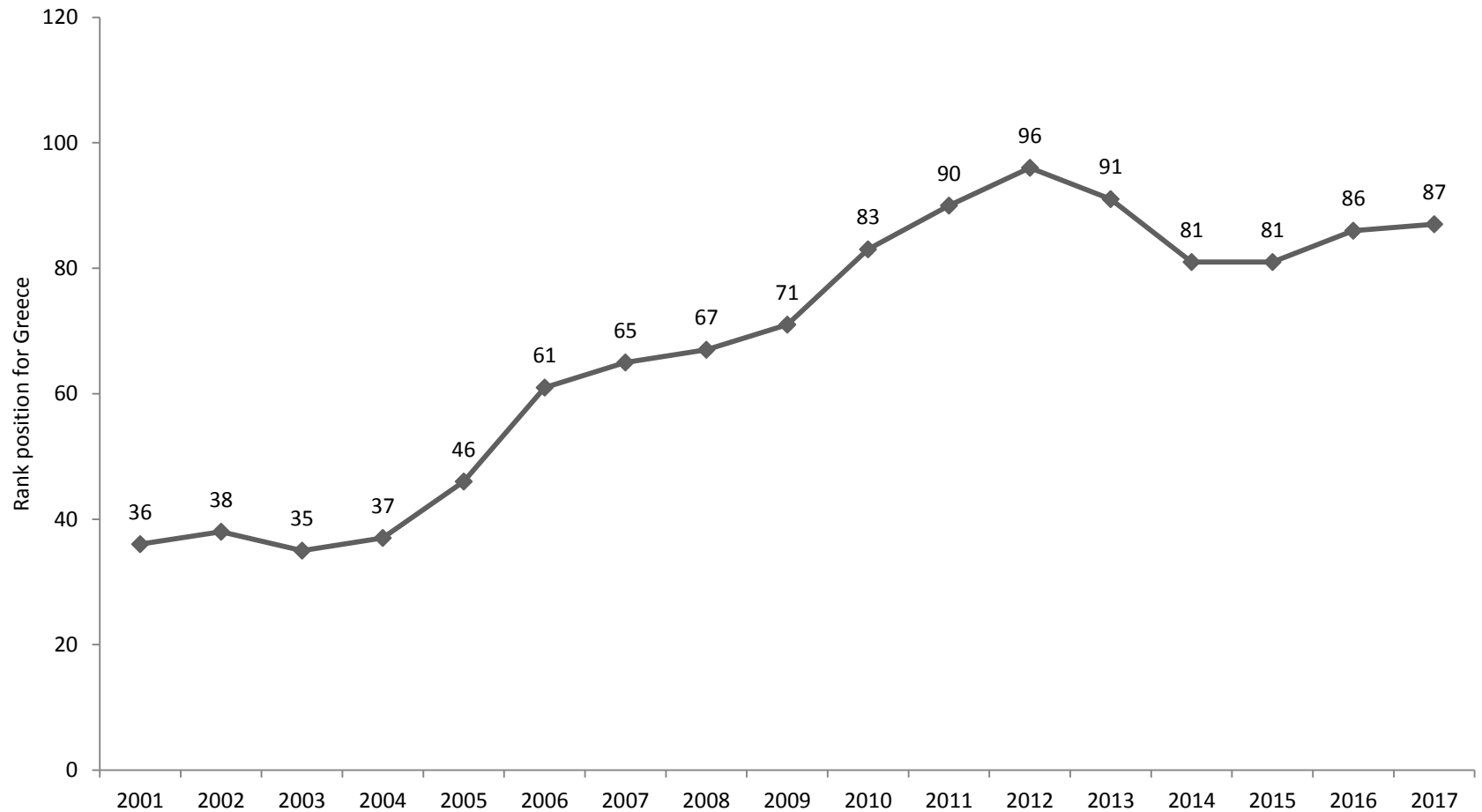
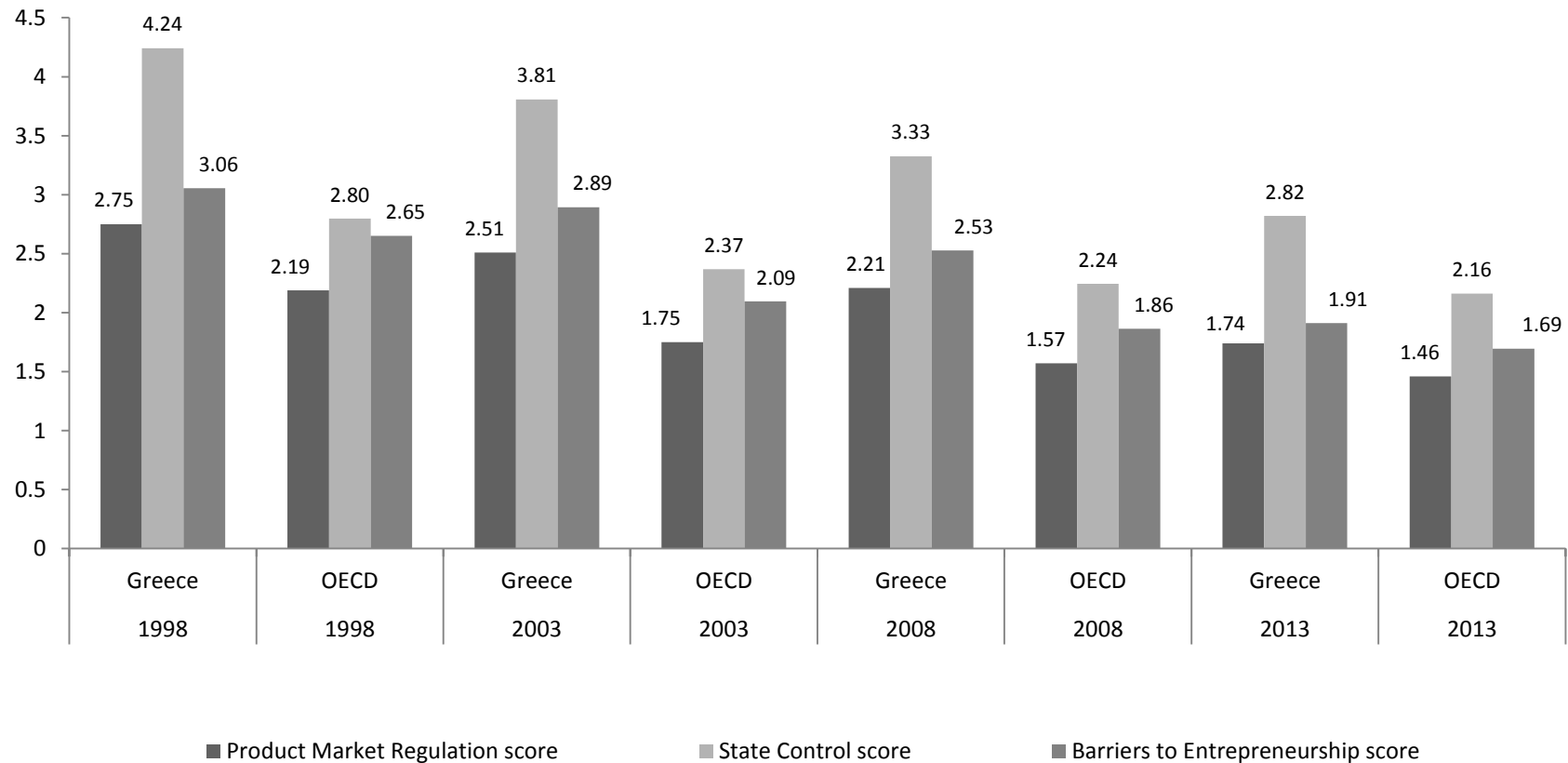# Indices of Competitiveness – World Economic Forum
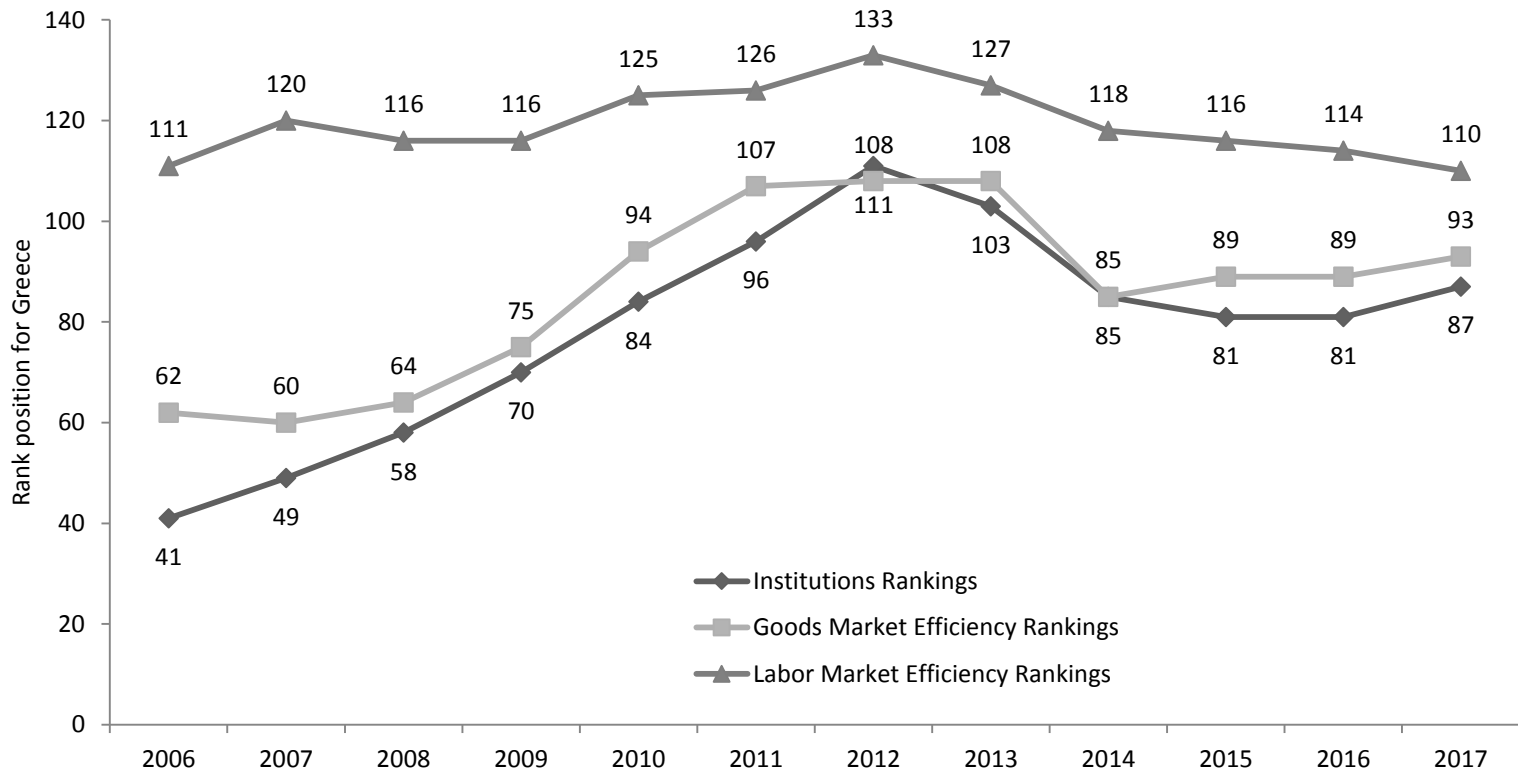
Indices of Competitiveness – World Economic Forum

World Bank - Worldwide Governance Indicators

OECD - Product Market Regulation index

Summary

- The consistent picture that emerges regarding the state of the Greek economy is clear: high barriers of entry, heavy state control, inefficient regulatory framework and very restrictive product market regulation, all of which lead to less competition and decline of overall competitiveness.

- In the more recent years, since the beginning of the crisis, reforms and changes in the legislation seemed to be reversing these negative trends and Greece appeared to be gradually closing the gap with other advanced countries.

- But CGI and many sub-indices have returned to their negative trend since 2014.

- So, important differences remain that indicate that <u>the process of deregulation to reinvigorate the competition in the internal product markets still has a long way to go</u>.

Taking a closer look

- Main reasons behind the lack of effective competition are two:

(i)   excessive and low quality regulation of a very large number of markets resulting in a very high *regulatory burden*, protected product markets and "closed" professions and

(ii)   inefficient implementation of regulation, in those markets where this is necessary, in the form of competition law and sectoral regulation, in order to improve market outcomes and welfare.

- Excessive and low quality regulation are the most important factors in restricting the intensity of competition, hindering the growth of entrepreneurship and innovation, and deterring direct foreign as well as domestic investment.

- Note significant amount of empirical work on impact of regulatory burden.

- Together with the inefficient implementation of competition law and sectoral regulation, these are among the most important structural problems that the Greek economy has to face in order to improve its competitiveness and to be able to return to high and sustainable growth.

- Consider (i) and (ii) in turn.

Excessive and low quality regulation (1): some numbers

- OECD Report (2011) «Functional Review of the Central Administration in Greece» - considered regulations between 1995 and 2005:

- Counting laws, presidential decrees, ministerial decisions, regional decisions and decisions of municipal authorities, there were about 5,716 regulations per year (or 477 regulations per month) on average.

- Even if we do not take into account the regional decisions and the regulations by municipal authorities, the number of regulations per year is 4,630 on average (or 386 regulations per month)!

Excessive and low quality regulation (2)

- Conveying the depth and breadth of the various rules and regulations applied to various product markets, as well as the large degree of market fragmentation, is truly daunting.

- Article provides various case studies to illustrate this point: Trucks, Maximum Markup Regulation for Fruits and Vegetables, Fresh Pasteurized Milk, Bread and Bake Off and Lawyers, Advertising Fee.

Excessive and low quality regulation (3)

- Rent-seeking activities / corruption largely behind the emergence of many regulations.

- But the <u>main cause</u> of their sustained growth is that in Greece there is no institutional framework for the assessment of regulations which allocates responsibilities to suitably organized and staffed institutions to examine existing regulations and abolish those that are not necessary or create high social cost and to forbid the creation of new regulations which are expected to yield this result.

- There is neither an <u>Authority for the Assessment of the Effects of Regulations</u> (AAER) nor any other institution or mechanism.

- The Law 4048/12 of 2012, aimed to improve the regulatory governance, proposed principles and procedures of good regulation, but was never implemented and in any case did not propose the appropriate organizational and decision-making structures and processes that are necessary to address the problem in Greece, and was not concerned with the reduction of the existing (huge) regulatory burden.

Excessive and low quality regulation (4)

- The details of the <u>institutional framework</u> for the assessment of the effects of regulations and the institutional structure of the AAER vary from country to country.

- But in all countries there is a central unit or organization with the above key responsibilities. (Recommendations below).

Inefficient implementation of Competition Law and Sectoral Regulation: Importance

- One of the pillars for a competitive environment, and one where the government has a clear role to play, is an effective legislative and institutional framework for dealing with cases where regulation is necessary for efficient market outcomes.

- We examine two types of cases: the first concerns <u>competition law and policy</u> and the other the <u>regulation of network markets</u> with natural monopoly features, in particular, telecommunications and energy.

- Literature on the effects of competition <u>policy (implementation of competition law)</u>.

Evidence on effects of competition policy

- Buccirossi P, Ciari L, Duso T, Spagnolo G, Vitale C (2011) Measuring the Deterrence Effect of Competition Policy: The Competition Policy Indices. **J Compet Law & Econ** 7:165-204.

- Buccirossi P, Ciari L, Duso T, Spagnolo G, Vitale C (2013) Competition Policy and Productivity Growth: An Empirical Assessment. **Rev Econ Stat** 95(4):1324-1336.

- Benetatou K., Y Katsoulacos, K Kyriazidou and G Makri(BKKM, 2019) "Competition Policy and Labor Productivity Growth: Some new evidence", **Empirical Economics** (2019). Includes for the first time Greece.

Summary of BKKM

- Article contributes to the empirical literature on the impact of competition policy on LP growth, focusing specifically on EU countries.

- We capture the quality of competition policy by the Competition Policy Indices (CPIs), proposed, constructed used by Buccirossi et al. (2011, 2013).

- We construct these indices also for Greece for the period 1995-2013 and use them to study the effect of CP on LP growth in 22 industries for a set of 10 EU countries.

- We find that the CPI has a positive and statistically significant effect on LP growth.

- Most importantly, we also investigate possible heterogeneity of this effect by separating the countries of our sample in two groups, Laggards and Leaders.

- We find that the effect of the CPI on LP growth for the Laggards is about three times larger compared to the effect estimated for all ten countries in our sample, while it is very small and statistically insignificant for the Leaders.

- Finally, when we estimate the effect only for Greece the coefficient increases substantially, reinforcing our finding that gains from increasing the quality of competition policy and making product market competition more effective are to be reaped mainly by countries for which there is the greatest scope for improving the effectiveness of product market competition.

Inefficient implementation of Competition Law in Greece

- The quality of institutions and of enforcement remains low.
- Some of the main problems:
- Independence of Competition Commission (Epitropi Antagonismou)
- Absence of specialized Courts of Appeal
- Inappropriate legal standards (decision rules guiding assessment procedures).
- Insufficient resources in terms of quantity and quality
- Inefficiency: long delays in investigations, in decision-making and in the appeal process.
- The extremely important *competitive neutrality principle* is not used.

Measuring the quality of CL enforcement

- Look at appropriateness of legal standards (LSs) to infer quality of decisions, comparing actual to optimal standards (Katsoulacos Y., D Ulph "On Optimal Legal Standards for Competition Policy: A General Welfare-Based Analysis", **Journal of Industrial Economics,** 2009**;** "Regulatory Decision Errors, Legal Uncertainty and Welfare: a General Treatment", **International Journal of Industrial Organization**, 2016).

- Empirical work on quality of decisions in different countries (Brazil, Canada, EC, France, Russia, Turkey, South Africa).

- Empirical work in progress in Greece.

- Measurement of legal standards: methodology (Katsoulacos Y., S Avdasheva and S Golovanova "A methodology for empirically measuring the extent of economic analysis & evidence and identifying the legal standards in Competition Law enforcement", in Festschrift in Honour of Frederic Jenny, **Concurrences Review**, 2018).

Some cross-country data

Country / Period	Total number of antitrust decisions (average p.y)	Number of infringement decisions (% of total)	Appealed decisions		Annulled decisions		Average value of the EB-indicator (max: 8)
			Number	%	Number	%	
EC DGCOMP (1992 – 2016)	465 (18,6)	197 (42,4%)	136	69%	54	40%	
Russia (2008 – 2015)			987 (+146) (1133)		437 (+75) (512)	44,2 (51,4%) (45,2%)	2,47 (3.38) (2,59)
Greece (1996 – 2017)	148 (7,4)	79 (53%)	71	90%	21	30%	3,52
France (2000 – 2015)	678 (40)	295 (43,5%)	171	58%	53	31%	3,53
Turkey (1998 – 2017)	307 (16,6)	226 (73,6%)	188	83,1%	56	30%	3,41
South Africa (2001 – 2016)	27 (1,7)	16 (59,3%)	10	63%	8	80%	5,31

LSs and Indices of Uncertainty and Quality of Enforcement: Results from the Russian dataset

	Price fixing and market sharing (Group G1) (Assumed optimal = 1)	Concerted practice (Group G2) (Assumed optimal = 7)	Vertical agreements (Group G3) (Assumed optimal = 7)	Exclusionary conduct (Group G4) (Assumed optimal = 7)
Number of observations	122	132	144	141
'Best practice' legal standards	1	7	7	7
Weighted Average Legal Standard, WALS (1 to 7)	1,98	2,40	1,57	2,33
LS with highest share, share in brackets	1 (0,48)	3 (0,56)	1 (0,72)	2 (0,44)
Two LSs with highest sum of two neighboring shares (sum of shares in brackets)	1,2 (0,64)	2,3 (0,84)	1,2(0,80)	2,3 (0,76)
Index of Concentration of LSs, I_{CON} (index of legal certainty)	34	42	53	33
Index of Uncertainty, I_U	0,18	0,21	0,26	0,18
Quality of Enforcement: $I_{Q,1}$, $0 \leq I_{Q,1} \leq 6$	5,02	1,40	0,57	1,33
Quality of Enforcement: $I_{Q,2}$, $0 \leq I_{Q,2} \leq 6$	6	2	0	1

Source: calculated by authors using dataset

$I_{CON} = 100 * \sum_{i=1}^{7} s_i^2 ;\ 14,3 \leq I_{CON} \leq 100$

I_U = *standard dev. of shares*, $0 \leq I_U \leq 1$.

$I_{Q,1} = 6 - D1$, *D1 = deviation of WALS from optimal*, $0 \leq D1 \leq 6$

$I_{Q,2} = 6 - D2$, *D2 = deviation of LS with maximum share from optimal*, $0 \leq D2 \leq 6$

LSs and Indices of Uncertainty and Quality of Enforcement: Results from the Greek dataset

	(Horizontal) Price Fixing	(Horizontal) Concerted Practices	Vertical Agreements	Exclusionary Conduct
HCC	(Number of observations 22)	(Number of observations 9)	(Number of observations 20)	(Number of observations 21)
	[optimal: 1]	[optimal: 7]	[optimal: 7]	[optimal: 7]
WALS (1 to 7)	3.36	3.44	3.55	4.10
LS with highest share (s), share in brackets	3 [0.41]	3 [0.56]	4 [0.55]	4 [0.62]
Two LSs with highest sum of two neighboring shares (sum of shares in brackets)	3-4 [0.68]	3-4 [0.67]	3-4 [1.00]	4.5 [0.86]
Index of Concentrations of LSs [I$_{CON}$ (Indirect index of uncertainty)]	29	38	51	46
Index of Uncertainty [I$_U$]	0.12	0.21	0.29	0.26
Quality of Enforcement: I$_{Q,1}$, $0 \le I_{Q,1} \le 6$	3.64	2.44	2.55	3.10
Quality of Enforcement: I$_{Q,2}$, $0 \le I_{Q,2} \le 6$	4	2	3	3

NOTES: "Optimal": according to what economic theory suggests
WALS= Weighted Average Legal Standard

$$I_{CON} = 100 * \sum_{1}^{8} s_i^2 \,, 14.3 \le I_{CON} \le 100$$

I$_U$= standard deviation of shares, $0 \le I_U \le 1$
I$_{Q,1}$=6-D$_1$, D$_1$= Deviation of WALS from optimal, $0 \le D_1 \le 6$
I$_{Q,2}$=6-D$_2$, D$_2$= Deviation of max share from optimal, $0 \le D_2 \le 6$

Key recommendation: a NCCP for Greece

- Design and implement a <u>National Competition and Competitiveness Policy (NCCP)</u> plan. What is a NCCP?

- The NCCP includes competition policy in the more narrow sense BUT is much more than that.

- It includes:

- An efficient <u>policy for the adoption and control of regulations</u>.

- A modern and effective legislative and institutional framework for dealing with cases where regulation is necessary for obtaining satisfactory market outcomes: <u>Competition Policy</u> & *ex ante* <u>regulation of network industries</u>.

- Measures for the <u>development and spread of *competition advocacy*</u> - to identify the short-term and long-term benefits of competition, so that the competitive spirit and culture will permeate deeply the Greek economy and society.

Policy for the Adoption and Control of Regulations: recommendations (1)

- Design and implement a new comprehensive policy for the adoption and control of regulations with measures which:

- Remove existing regulations which, without being necessary, hamper growth

- Allow new regulations to be adopted only as a last resort

- Reduce the number of new regulations

- Improve the design and ex-post assessment quality of new regulations

- Improve the way in which regulations are implemented and monitored

Policy for the Adoption and Control of Regulations: recommendations (2)

- To implement this policy, new organizational and decision-making structures should be established:
- The Executive Committee for Better Regulation (ECBR) - governmental committee. Providing advice, information, recommendations to Ministries in conducting Regulatory Impact Assessment Studies.
- Also ECBR can act as a Complaint Office for non-observance of the *competitive neutrality principle*.
- ECBR is assisted by the Strategic Group on Better Regulation with representatives from SEV, of the workforce, consumers.
- It provides advice/recommendations to the Reducing Regulation Committee (decision making body): a Sub - Committee of the Cabinet.

- **Sectoral Regulation – Telecom and Energy**

Main features & policy recommendations (Telecom 1)

- High diffusion of broadband especially of the fast/supefast broadband (SFBB) has been shown to enhance economic growth and the effective provision of public services
  - SFBB especially important for tourism and services
- Greece has been in a low position before the crisis. This is still true. New broadband technologies require investments.
  - The crisis affected negatively the investment climate
- In the short-run, measures for (non-permanent) tax discounts can boost demand.
- There are different ways to implement this – could be done, for example, by lower VAT rates for ultrafast (>100mbps) broadband for a period of time.
- Policy makers have also developed more targeted measures, such as 'voucher' type schemes. Greece has received approval for such a scheme recently.

Main policy recommendations (Telecom 2)

- In the longer term, policies that target the reduction in risk and investment cost are needed:
  - Reduce investment cost – e.g. cost of setting up network
  - Financing costs is one of the measures – recently, funding of FTTH (fibre to the home) roll-out in Greece, with 304 mn of EU ESI (i.e. European Structural and Investment) funds has being earmarked. There seems to be very low absorption though – 9%. This type of funding is typically required outside the dense urban areas, as the costs of rolling out FTTH infrastructure increase significantly in suburban/rural areas.
  - In the urban areas, measures can also be taken to reduce the actual construction costs to roll-out fibre to the home/building – e.g easing/facilitating the processes/licensing required for access to buildings, to dig up roads, etc.
  - Facilitation of 'co-investment' by different providers

Sectoral Regulation - Energy

- <u>Main features of situation </u>in Greece:

- "Liberalised" parts of energy markets have been dominated in terms of market share by public monopolies (in production and in supply)

- electricity production suffers from serious cost asymmetries. PPC is the only firm using low cost fuels for generation.

- Market liberalization and efficient regulatory enforcement impeded by the existence of too many decision centres.

- Price regulation, that still continues has had disastrous consequences for the productive efficiency of PPC- as retail prices have been set so as to cover the company's reported costs (also known as 'cost-plus' regulation.

- Wholesale electricity market has relied on the Mandatory Pool with many features that create inefficiencies.

- Retail competition between independent suppliers has been almost non-existent.

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Energy: recommendations

- Restructure the wholesale electricity market in order to remove the distortions associated with its operation.

- Take measures to enhance competition between existing producers and with potential new market players: necessary, in order to reduce the risk of large price increases in the short and medium run of abandoning price regulation.

- Structural measures involving the sale of low-cost lignite power stations from the PPC to the other producers could provide a solution.

- A complementary role to structural measures, is to provide rights of access to third parties/producers (that currently operate high-cost gas stations) and independent suppliers, at a cost-oriented (benchmarked) price, to the low-cost (lignite and hydro) capacity of PPC - measure similar to that originally implemented in France in 2011 (NOME-type regulation).

Energy: recommendations (cont.)

- Replace the current cost-plus regulatory controls on prices for transmission and distribution with mechanisms that can provide stronger cost minimisation incentives, such as multi-year price controls.

- Improve the efficiency in the management of RES production - most importantly, manage its impact to the competitive part of the market, as in the last years incentives, through guaranteed high prices, to invest in RES have been responsible for exerting an upward pressure on retail prices.

- Improve the capability of the energy regulator that will, especially after the privatization of the PPC, have to perform very demanding regulatory tasks.

Energy: <u>Summary</u> of Main Recommendations

- Measures to restrain the dominance of public monopolies in energy markets and increase in competition in production and retail markets:
- Structural measures: sale of low-cost lignite units of PPC
- Other measures (NOME-type measures) for reducing the significant asymmetries in costs.

- Improvements in the operation of the wholesale market (mandatory pool)

- Improvements in the regulatory framework:
- Elimination of multiple decision centres
- Removal of "cost-plus" regulatory controls in prices
- Strengthening of the sectoral regulator
- Adapt the regulatory framework for the renewable energy sources.

- Thank you!
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