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**Assessment of the implementation and impact of OECD's first (2013) Competition Assessment 'toolkit'
review of Greece**

This note examines the impact of the first Greek competition assessment project. The note was prepared in the context of the broader OECD effort to assess impacts of OECD work under the V4M Action Plan.

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ASSESSMENT OF THE IMPLEMENTATION AND IMPACT OF OECD’S FIRST (2013) COMPETITION ASSESSMENT ‘TOOLKIT’ REVIEW OF GREECE

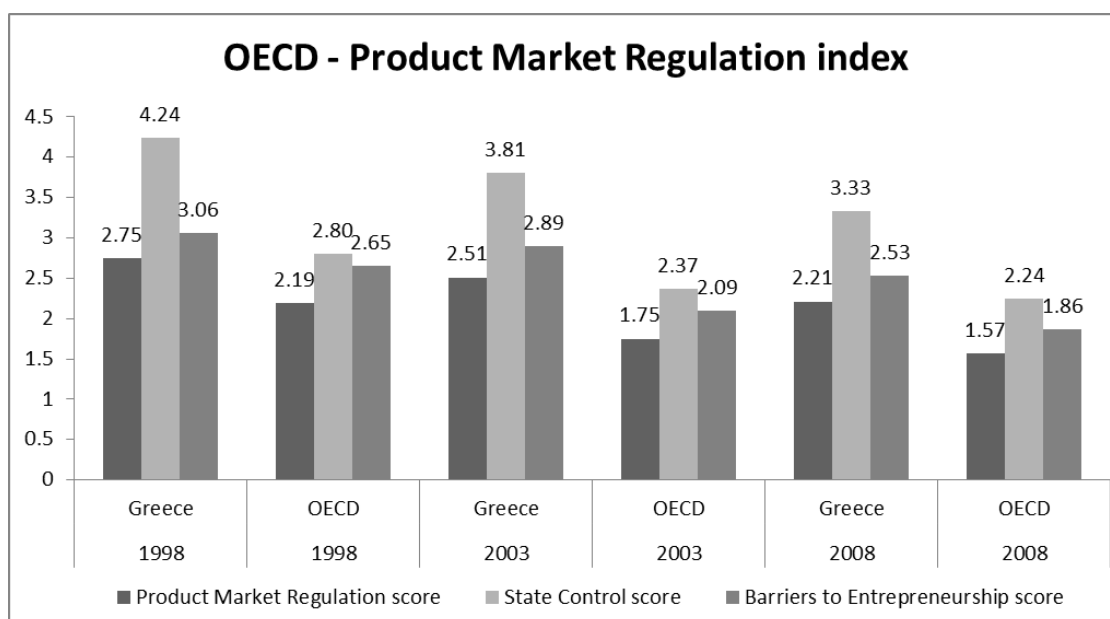
1. Background on the Greek economy before the OECD Competition Assessment

For at least two decades leading up to the wake of the economic crisis in 2009, Greece has been steadily losing its competitiveness vis-à-vis other EU and OECD countries. One of the main determinants of competitiveness is the quality of the set of rules and regulations that govern the operation of markets. These should promote competition, investment and entrepreneurship. Regulations that are well-designed, suitably applied and effectively enforced can make a country competitive and prosperous.

Greece’s low competitiveness was not due to a lack of regulations. Indeed, the Greek economy was very heavily regulated until the beginning of the crisis. This was evident in almost every international indicator. We briefly review data from just three international organizations: the World Economic Forum, the World Bank and the OECD.

Last, but not least, every five years the OECD publishes the Product Market Regulation (PMR) indicator that again tries to quantify the quality and restrictiveness of the product market regulation, various barriers to entrepreneurship and investment, as well as the amount of state control in the economy. Figure 1 provides the respective scores for the last four reports. The picture that emerges from this indicator as to the relative position of Greece is no different from the previous evidence: heavy product market regulation, high state control and large barriers to entrepreneurship with Greece improving over time but seriously lagging behind the OECD average.

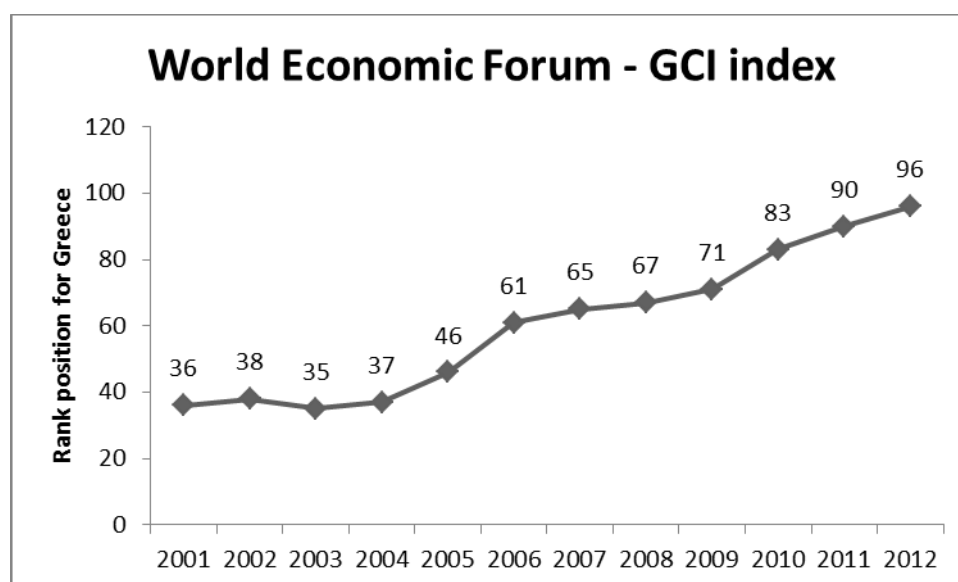
Figure 1. OECD - Product Market Regulation index



Source: OECD, Product Market Regulation Database

According to the Global Competitiveness Index (GCI), competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. Figure 2 shows the evolution of Greece's overall competitiveness ranking between 2001 and 2012. The increase in the index means that the relative competitiveness of the Greek economy has been steadily declining, with a particularly accelerated pace since 2005.

Figure 2. World Economic Forum - The Global Competitiveness



Source: World Economic Forum, 2001-12

The consistent picture that emerges from these indicators regarding the state of the Greek economy before the crisis is very clear: high barriers of entry, heavy state control, inefficient regulatory framework and very restrictive product market regulation, all of which naturally lead to less competition in product markets and the steady decline of Greece's overall competitiveness.

Heavy regulation is generally associated with greater inefficiency and poor economic outcomes (see, for example, Nicoletti, et. al., 2000; Blanchard, 2004). Many of the regulations create serious obstacles for competition, investment and entrepreneurship. Deregulations that promote competition have a positive impact on productivity through a more efficient use of resources (Nickell, 1996; Blanchflower and Machin, 1996; Bloom, et. al., 2012), by making entry of new firms easier (Van Wijnbergen and Venables, 1993; Bloom, et. al., 2012) and by incentivising firms to innovate (Blundell, et. al., 1999; Aghion, et. al., 2005).

2. Product Market Reforms and the OECD Competition Assessment

However, precisely because the Greek economy is heavily and inefficiently regulated, there are large benefits to reap from regulatory reform.¹ The Economic Adjustment Program signed between the Greek government (May 2010) and supervised by the European Commission (EC), the International Monetary Fund (IMF), and the European Central Bank (ECB) was based on two pillars: fiscal consolidation and structural reforms. Structural reforms referred both to labour and product (i.e., goods and services) market

¹ According to one OECD study (Scarpetta and Tressel, 2002), a comprehensive regulatory reform alone could raise the competitiveness of the Greek economy and ultimately the incomes of Greek citizens, by more than 15%.

changes. Since most labour laws are horizontal in nature, i.e. affecting all economy sectors, labour market reform recommendations were easier and quicker to take shape and be implemented. On the contrary, product market reforms required a market-by-market analysis and are very specialised.

The 2013 OECD Competition Assessment of Laws and Regulations project became part of the Greek government product market reform effort. The OECD team in Athens, in cooperation with the Hellenic Competition Commission, worked closely with the government officials and other stakeholders (firm and consumer associations, etc) to identify regulatory distortions and propose recommendations in four key areas of the Greek economy: food processing, retail, construction materials and tourism. These sectors represented 21% of GDP by output in 2011, and had a combined turnover of EUR 44.26 billion. These four sectors represented 1 103 500 jobs or 24.8% of total employment in Greece in 2011. Lifting the restrictions to competition in these sectors is therefore likely to have a significant positive economic impact, both in the short term and in the long term.

The 2013 OECD Competition Assessment was the first project of its kind, both in scope and in terms of its tight deadlines that led to the identification of 555 regulatory restrictions. These regulations were selected as being potentially harmful to competition from the original 1 053 legal texts chosen for analysis, using the OECD's Competition Assessment Toolkit. In total, the report makes 329 specific recommendations to mitigate harm to competition.

Table 1. Summary of the legal provisions analysed per sector

	Food processing	Retail trade	Building materials	Tourism	Horizontal legislation	Total
Recommendations made	54	129	32	76	38	329
Administrative burden	1	15	1	19	4	40
No recommendations for change	45	66	13	37	25	186
Total	100	210	46	132	67	555

Source: OECD, Competition Assessment Review of Greece

Although impacts of only a number of the restrictions could be fully quantified (66 out of 329 recommendations), the OECD has calculated a positive effect to the Greek economy of around EUR 5.2 billion. This estimated amount stems from the nine broad issues that we were able to quantify (see Table 2 below). Moreover, the rationalisation of the body of legislation in these sectors will also positively affect the ability of businesses to compete in the longer term, provided that the recommendations are implemented fully. Also, by removing obsolete or redundant legislation, investors face a more transparent and less uncertain business environment. In other words, the full effect of the cumulative, long-term impact on the Greek economy of lifting all of the restrictions identified as harmful is likely to be even larger.

Table 2 below summarises the quantifiable effects of lifting the regulatory barriers to competition for selected obstacles.

Table 2. Synthesis of positive effects quantified by item

Sector	Benefit	Number of provisions affected	Value, EUR m
Food		3	
"Fresh" milk	€ 33 m (consumer benefit/year)	2	33.0
Levy on flour	€ 8-11 m (value of levy/year)	1	8.0
Retail		35	
Sunday trading	30 000 new jobs	3	
Sunday trading	€ 2.5 bn (annual expenditure)		2 500.0
Sales and discounts	€ 740 m (annual turnover)	9	740.0
OTCs	€ 102 m (consumer benefit/year)	23	102.0
Tourism		14	
Marinas	€ 2.3 m (annual turnover)	10	2.3
Cruise business	€ 65 m (annual turnover)	4	65.0
Horizontal		14	
Advertising	€ 1.8 bn (consumer benefit/year)	14	1 800.0

Source: OECD, Competition Assessment Review Greece

3. Post OECD Competition Assessment project developments and evaluation

The Greek government adopted the majority of recommendations with an Omnibus Law, voted on the 31th of March 2014. The IMF concluded that 72% of the recommended reforms were implemented.² From unofficial discussions with various Ministry officials, OECD estimates that the actual implementation is even higher.³ However, for some of the most important and politically contentious provisions there was a significant delay in adopting or full implementation. Below we briefly summarize a few selected examples. Many changes that have been implemented are too recent for observing the full impact of the change.

3.1 Food processing: Fresh Milk

Recommendation: Liberalise the five-day restriction on the shelf-life duration of milk. Instead the product's use-by date should be determined by the producers, according to their pasteurisation methods and the relevant EU regulation.

Implementation: The 2014 Omnibus law extended the shelf-life duration of fresh milk from 5 to 7 days. The recommendation was fully adopted in August 2015. It is not yet clear whether it needs a Ministerial Directive by the Ministry of Rural Development and this is perhaps why no firm has increased the milk shelf-life above 7 days.

Impact: No formal impact analysis on the price and product availability is available. An informal look at the supermarket shelves reveals that (1) all 5-day products have moved to 7-day, indicating that indeed the 5-day regulation was binding, and (2) new products have entered the market with different durations.

² <http://www.imf.org/external/pubs/ft/scr/2014/cr14151.pdf>

³ The OECD did not have an official role in the implementation of the recommendations or in the monitoring of their implementation. OECD was occasionally asked to better clarify specific recommendations or, at the request of the troika (IMF, ECB and EC), to comment on how draft Greek legislation implemented our recommendations.

3.2 *Retail Trade: Sunday trade*

Recommendation: OECD recommended two options:

1. Fully liberalise Sunday trading: All shops can choose to operate during Sundays restrictions (the law provided Sunday trading only for shops of less than 300 sq.m.) ***or***
2. Allow certain touristic areas to operate freely during Sundays in order to measure the impact before choosing the full liberalisation

Implementation: The Greek Government introduced a Ministerial Decision and implemented the second option by defining specific touristic areas to freely operate during Sundays. The Ministerial Decision has been suspended by the Council of State.

Impact: Currently impossible to quantify because the liberalisation only took place for some months and then was suspended.

3.3 *Retail Trade: Season sales*

Recommendation: Liberalise periods of sales (currently determined in the law).

Implementation: Not implemented. However, although the periods of sale are still determined by law (were increased from two -Christmas and Easter period- to four and this was done before 2013) all the other OECD recommendations on related issues were implemented making it easier for shops to run promotions.

Impact: A formal assessment of the specific recommendation is impossible, as it was not implemented as such. KEPE's (2016)⁴ independent impact review evaluating all the changes in sales and promotions for the retail sector comes to the conclusion that (1) prices seem to have fallen, (2) turnover seems to have increased, particularly during the winter sales, and (3) employment seems to have been either steady or in some subsectors negatively affected⁵.

3.4 *Food processing: Bakeries*

Recommendation: Eliminate strict definitions for bakeries and points of sale of bread; allow points of sale of bread with baking facilities to use the term "bakery". Also, to abolish certain types of weight for bread and product from bread and to provide a clear indication of the price per kilogram for all bread and baked goods.

Implementation: Implemented.

Impact: KEPE's (2016) impact assessment concluded that both the number of firms and employment increased, although not all of this effect can be causally related to the specific changes in legislation⁶. They report a significant drop in the price of bread and bakery products. KEPE compared the evolution of bread and bakery products (treatment group) to the evolution of price of a similar product (pasta, control group)

⁴ "Impact Assessment of specific Reforms related to Competition" (Third Draft), KEPE, Athens, April 2016.

⁵ It is worth noting, however, the difficulty of constructing a counterfactual scenario given the severe recession affecting the whole Greek economy.

⁶ KEPE did not use any control group as a counterfactual nor did they run any regression analysis to control for time effects.

for the third semester of 2014 and the first semester of 2015. It concludes that the change in legislation had a significant price reduction impact.

3.5 *Retail Trade: Over-The-Counter (OTC) pharmaceutical product and dietary supplements*

Recommendation:

1. Liberalise both the distribution channels by allowing other retail stores to sell OTCs and dietary supplements, and
2. Liberalise price for OTCs by abolishing the maximum profit margins both at the wholesale and retail level.

Implementation: The Greek Government implemented (2) with a transitional period until the end of 2016. Recommendation (1) is being implemented in a Law submitted to Parliament on 19 May 2016 and delegated the power to define the specific medicines and points of sale through a Ministerial Decision. The government has created a new and narrower category of OTCs which will be sold outside pharmacies. The specific medicines that will be included have not been identified yet.

Impact: No impact for OTCs as implementation is still in course. KEPE has done a survey on a number of vitamins and dietary supplements comparing prices in pharmacies, e-pharmacies and supermarkets. It finds that prices in supermarkets are significantly lower, followed by e-pharmacies and then pharmacies.

3.6 *Retail Trade: Books*

Recommendation: Abolish the fixed retail price regulation of books.

Implementation: The 2014 legislation abolished fixed retail prices for all books except for literature books.

Impact: Based on unpublished research⁷, there is a 14% decrease in prices on average, with large heterogeneity across retailers (-1% to -26%). There is also a drop in the number of published non-literature compare to literature books but with no statistically significant results.

3.7 *Tourism: Cruises*

Recommendation: Lift the round-trip restriction on cruises leaving a Greek port, so as to allow passengers to embark the cruise ship at one port and disembark at another port, while still imposing a minimum duration of the passenger's trip and thus maintaining the distinction with regular ferry services.

Implementation: Fully implemented in the 2014 Omnibus Law.

Impact: No impact assessment yet available due to lack of relevant data.

3.8 *Horizontal legislation: Advertising tax*

Recommendation: The advertising tax should be eliminated and the advertising fee paid to municipalities must be eliminated.

⁷ Genakos, Lionis and Pagliero (2016) "Evaluating the impact of fixed book price regulation: the case of Greece", unpublished manuscript.

Implementation: The new law on pensions abolished the tax on advertising with effect on 1st August 2016.

Impact: No impact assessment yet available since the law has not been implemented yet.

In conclusion, the vast majority of OECD's first competition assessment recommendations have been implemented by now. Ex ante impacts suggest full implementation could ultimately yield benefits of EUR 5.2 billion. Ex post impact evaluation evidence is scarce and mostly informal and, with existing results being positive. The majority of the 329 recommendations have been implemented in law, with a full implementation of at least 72% of recommendations. Most of these changes are relatively recent, so ex post impact assessment is still premature in some cases, particularly as final impacts will be largest when the Greek economy starts growing again, as that will make investment for entry easier and hence have the potential to increase competition to the benefit of consumers. Most importantly, the OECD's first competition assessment project provided the first big push of significant product market changes. This push, although contentious at first, over time is helping build a consensus among Greek political parties on the necessity and urgency of these changes and has paved the way for the continuation of structural product market reform.

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