

Unclassified

English - Or. English

24 October 2022

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**Executive Summary of the Hearing on Methodologies to Measure Market Competition**

**Annex to the Summary Record of the 135th meeting of the Competition Committee**

11 June 2021

This Executive Summary by the OECD Secretariat contains the key findings from the Hearing on Methodologies to Measure Market Competition, held by the Competition Committee on 11 June 2021.

More documents related to this discussion can be found at  
<https://www.oecd.org/daf/competition/methodologies-to-measure-market-competition.htm>

Please contact Mr Antonio CAPOBIANCO if you have questions about this document.  
Email: [Antonio.CAPOBIANCO@oecd.org](mailto:Antonio.CAPOBIANCO@oecd.org)

**JT03505754**

## *Executive Summary of the Hearing on Methodologies to Measure Market Competition*

By the Secretariat\*

From the discussion at the roundtable, the delegates' and experts' written submissions, several key points emerged:

**1. The ability to reliably measure, track, and compare the competitive intensity of a market can be extremely valuable in informing the decision-making of competition authorities and other policymakers. However, the measurement of competition is not straightforward. Competition is a complex concept and not directly observable. There are several measures that try to capture the degree of competition. However, these measures do not provide absolute conclusions on the intensity of competition.**

The intensity of competition is not directly observable. However, there are several measures that attempt to capture the intensity of competition. These measures capture two main concepts of competition: competition as a static state, or competition as a dynamic process of rivalry. These measures can be broadly categorised as: structural measures, performance measures, dynamic measures and measures of consumers and business perceptions of competition.

1. Structural measures (such as market shares, concentration ratios, and the Herfindahl-Hirschman index) focus on elements of market structure. These capture competition as a static state.
2. Dynamic structural measures (such as entry and exit rates, average age of firms, volatility of market share, concentration and rank) aim to capture competition as a continuous dynamic process of rivalry. Less efficient firms are removed and replaced by more efficient entrants. A market is competitive when rivals are sufficiently threatening to incentivise an incumbent to improve (better quality, lower price, new services, more innovation, etc.) to maintain its competitive advantage.
3. Performance measures (such as mark-ups, profits, and the Panzar and Rosse model, which capture competition as a static state, and the Boone indicator which captures competition as a continuous dynamic process of rivalry), also known as non-structural measures, aim to directly assess the competitive conduct of firms, so focus on firm performance rather than market structure.
4. Consumer and business survey measures can provide useful indirect evidence on whether competition is working well. These surveys provide an indication of whether markets are perceived to deliver good market outcomes. Survey evidence showing poor outcomes may be indicative of a problem in competition, consumer protection, or both.

**2. It is important to rely on multiple measures of competition when assessing the intensity of competition. Individually, each measure of competition provides only limited information, but together can offer useful insights. Ideally, one should use a**

---

\* This executive summary does not necessarily represent the consensus view of the Competition Committee. It does however identify key points from the discussion at the Roundtable, including the views of the expert panellists and the participants' oral and written contributions.

**combination of measures covering structure and performance; static and dynamic measures, firm and industry data; and inter-industry and intra-industry comparisons.**

There is no consensus over the best measure to infer the intensity of competition. Individually, each of the measures provides only a limited amount of information, but together they can provide useful information to get a fuller understanding of the trends in competition.

Market competition can take different forms because of several strategic variables (price, product quality, brand etc.) such that there is not a unique indicator of competition that can unequivocally detect changes in intensity of competition.

Ideally, one should use a combination of measures covering structure and performance; static and dynamic measures, firm and industry data; and inter-industry and intra-industry comparison.

Furthermore, the relevant set of indicators may differ between markets. Knowledge of firms' business models helps to assess which set of indicators are more appropriate for a particular market.

**3. Competition between firms is analysed within a well-defined antitrust market. However, often data is only available at an aggregate level (such as industry-level data) or firm level. Antitrust markets are typically narrower (but can also be wider) than industries. Therefore, while aggregation issues may be unavoidable given the data availability, it is important to consider aggregation when interpreting the results and assessing the risk that the data might not be fit for purpose.**

Most studies analyse industry or firm level data, neither of which are perfect to measure competition, which takes place in well-defined product and geographic antitrust markets.

Industry-level data can consist of a large number of relevant markets. Analysis using this aggregate data may not identify problematic markets. For example, consider a simple scenario for illustrative purposes: there are 10 relevant markets within an industry digit code and in each one different firms have a 100% market share. Then, at that industry digit-code level, the concentration ratio C3 would be 30% even though this in fact represents 10 monopolies.

Recent research uses a novel database gathered from public EU merger decisions to identify HHI in well-defined product and geographic antitrust markets. The research suggests that HHI is materially higher than values found in existing research, and that on average concentration is increasing. However, there is a great deal of heterogeneity across antitrust markets.

**4. Competition authorities measure market competition in a variety of enforcement and non-enforcement contexts. Beyond enforcement, measures of competition can assist agencies in their advocacy efforts and in ex-post evaluations of the effectiveness of competition policy. The most appropriate measure of competition depends on the purpose.**

When measuring competition in enforcement cases (mergers and abuse of dominance), broadly speaking, competition authorities assess whether there is a “significant lessening of competition”, a “significant impediment to effective competition” or an “adverse effect on competition”. The selection of competition measure is case-specific, depending on the market characteristics and the data availability. Measures often used by competition authorities include, among others, market concentration measures (e.g. the analysis of market shares, of market share increment, HHI levels and C4), profitability measures (e.g.

margin/mark-up evolution and comparison across agents), as well as market contestability measures (e.g. number of remaining competitors, market shares of main competitors/importers, and import/export rates).

Competition authorities can use competition measures at industry- or economy-level, both to prioritise and support competition advocacy initiatives. Such analysis can potentially identify industries where an authority may need to be more vigilant, identify areas for further work, or potential candidates for market studies. The discussion indicated that, thus far, competition measures were not frequently used to select candidate markets for advocacy efforts. While it would be inappropriate to rely solely on the mechanistic application of these measures to select markets, such analysis could certainly help competition authorities make more informed decisions.

Some competition authorities have also used competition measures at industry- and economy-level to assess the efficacy of competition policy. In recent years, concerns of weakening competition and enforcement, have increased interest in competition measures, which can be used to defend the legitimacy of competition policy.

**5. Co-operation between competition authorities could facilitate the sharing of best practices and strategies to overcome common problems that competition authorities face for when measuring market competition. In addition, co-operation with academics and other government agencies (such as statistical agencies) is important to overcome some of the current data and methodological challenges to measure market competition reliably.**

The Roundtable showed a diversity of approaches to measure market competition by different competition agencies. Most contributors in the session were facing similar issues and significant improvements could be made through coordination and standardising of data collection. Co-ordination with national statistics agencies could align the data collected to the objective of assessing competition in antitrust markets.

One example demonstrated effective co-ordination with government bodies and the national statistics office to develop, and gather data for, a competitive environment monitoring index. Another example demonstrated the monitoring of markets in the mining and manufacturing sectors by using data from the national statistics office.