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

Summary of discussion of the Roundtable on Competition and Inflation

Annex to the Summary Record of the 139th meeting of the Competition Committee

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This document prepared by the OECD Secretariat is a detailed summary of discussion of the roundtable on Competition and Inflation, held by the Competition Committee on 30 November 2022.

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Summary of Discussion of the Roundtable Discussion on Competition and Inflation

The Chair introduced the session on the relationship between competition and inflation. **Mr Carmine Di Noia**, OECD's Director for Financial and Enterprise Affairs, then said that this issue is becoming more relevant. Like many other topics that the OECD is tackling, it demonstrates the interaction between specific policy areas and broader economic issues. The OECD's Economic Outlook shows that the average annual inflation rate was 10.7% in the OECD this year, whereas three years earlier it would have been around 2%. It also points to the inflationary pressures facing most economies. Among other things, the OECD anticipated the need for further interest rate increases in order to reduce them. This uptick on inflation is a concern for governments, market participants, and citizens. Rising prices cast a spotlight on the role of competition authorities, and the contributions submitted for this session make it clear that they are already dealing with pressures to tackle inflation. He said that it is interesting to look at how competition and competition policy contribute to lowering inflation. This connection shows why competition policy is vital for well-functioning market-based economies. Finally, he insisted on the essential role of coordination, discussion, and information.

The Chair said that the aim of the session was to better understand the relationship between competition and inflation, and how competition authorities should respond to the inflationary phenomenon. He explained that the first part of the discussion would consider the relationship between competition and inflation, with the second turning to what competition authorities could, or should, do in response. The Chair then welcomed the three expert speakers: **Hal Singer**, Director at Econ One and adjunct Professor at Georgetown University; **Natalie Chen**, Professor of Economics at University of Warwick; and **Jan De Loecker**, Professor of Economics at KU Leuven.

The **OECD Secretariat** presented the background paper for this discussion. The first section considers to what extent competition affects inflation and discusses some of its short-term aspects. It mentions that there might be reasons to think that competition could be putting downward pressure on inflation over the longer term. The second section discusses the ways in which inflation affects competition. It suggests that inflation can provide cover for price signalling coordinated behaviour and may make it harder for consumers to compare prices. The last section turns to the implications for competition authorities, noting that most competition authorities are already taking actions, but could consider whether it is worth prioritising sectors that might have particularly high increases in prices and the role of advocacy. It discusses the potential benefits of cooperation, especially since many of the factors driving inflation might be international. The noted also observes that several thresholds in competition policy are based on nominal currency values such that, in a high inflationary environment, they might quickly lose their meaning.

The Chair then turned to **Prof. Jan De Loecker**, who spoke of the link between market power and inflation. He said that in various regions, there have been long periods without any inflation, while at the same time there has been a sizeable increase in profits, markups, and concentration. Even though measuring concentration is hard, at least for the time where there was no inflation, markups were going up. This suggests that if there are periods with no price increases, but with markup increases, the only way for them to go up is for cost to have gone down. If there is a period where prices have been stable but margins have been trending up, firms are not passing-through their cost savings as much as they could.

In order to make progress on these mechanisms, when observing the data, correlation and causality should not be confounded. There is a multitude of competing factors that can generate price hikes and appear as an issue of market power. In many industries, there are binding capacity constraints and if they interact with uncertainty, that may increase prices. It is going to be hard to identify whether these price effects are coming from an incomplete pass-through governed by anti-competitive behaviour or by the mere fact that big firms do not have to pass-through. Prof. De Loecker said that market structure matters. When a particularly big shock hits, it has different implications depending on whether the economy is highly competitive and dynamic, or if there are concentrated industries and many entry barriers. This is going to generate very different pass-through of cost and demand shocks. This means that the interacting frictions that may be in the market and coexist with market power, must be looked at. It is going back to the theory of second best: market power is going to interact with distortions that can be policy induced. The trend towards more concentrated markets may generate an environment that when a big shock hits, it may generate price effects such as the ones that are currently seen. That also means that there is no direct competition policy remedy.

It is very important to further study the link between inflation and market power, a subtle link that operates more likely through market structure. Attention must also be paid to how the same shock is going to play out in markets that are either highly concentrated or not, where there may be anti-competitive behaviour, where cartels may be in place, etc. If entry mechanisms are not turned on in a way that a perfect competitive model would have, there is no automatic price control mechanism. If market power is on the rise at a global scale, attention must be paid to where entry mechanisms are eliminated. Finally, government intervention and regulation also play a role. By making entry harder, they could even be making some entry mechanisms worse and implicitly giving more weight to the large incumbents that are in the market.

The Chair introduced **Prof. Natalie Chen** to discuss the links between competition and inflation, including the impact of international competition. Prof. Chen said that competition matters for inflation and emphasised two aspects of this link: the fact that international competition affects domestic competition, and the fact that there are strong advantages in studying disaggregated prices. When looking at price changes, it is important to distinguish between changes in mark-ups and in costs. While changes in mark-ups capture change in market power, changes in costs capture a change in efficiency. Thanks to the availability of highly disaggregated data, it is possible to estimate mark-ups, which allows to understand whether a change in price is due to a change in mark-ups or to a change in cost. Finally, micro prices allow to identify mechanisms that cannot be investigated using aggregate data.

There are different ways in which international competition impacts domestic competition and in turn prices and/or inflation through international trade: import competition, import tariffs, and changes in exchange rates. Import competition affects the domestic consumer price index in three different ways: cheaper imported goods reduce the CPI, imported intermediate inputs also become cheaper, and imports can have a pro-competitive effect. Evidence shows that trade has pro-competitive effects: sectoral data on inflation rates in the EU shows that trade openness had a pro-competitive effect on inflation, and imports of consumption goods from low wage countries lowered domestic produce price inflation for French manufacturing firms. Further, a fall in import tariffs also makes imports cheaper, with pass-through from tariffs to import prices and then to domestic prices. Recent evidence from US/China Trade War shows that there was complete pass-through of tariff increases to US import prices. Other research shows that while tariffs were almost fully passed through to import prices, their impact on consumer prices was mixed, and only some products have seen sharp increases in prices, suggesting that retail margins have fallen.

Changes in exchange rates are another way in which international competition can affect domestic prices.

Depending on the magnitude of pass-through, a domestic currency appreciation makes imports cheaper. This means that the domestic economy will import less inflation and produce at a lower cost. There is no evidence on how the mark-ups of domestic producers vary with changes in exchange rates, but there is surely some effect. In general, research finds that the pass-through of exchange rate changes into import prices is low. However, it is much larger when the fact that global trade is mostly invoiced in US dollars is accounted for.

When macroeconomic data is used, what can be seen is that competition reduces prices and inflation. When microeconomic data is used, it is possible to show that in some cases competition can also induce higher prices. This can happen if domestic firms escape the increase in competition by upgrading the quality of the goods that they produce. It could be that competition actually leads to higher prices but higher quality, even though the final effect on prices depends on the relative changes in mark-ups versus costs. Prof. Chen concluded that the evidence shows to foster international competition and lower inflation, it is important to be open to international trade, reduce import tariffs, and acknowledge that exchange rates affect prices and inflation. Using disaggregated data can provide further insights into how competition affects prices and inflation. Understanding the drivers of price changes is also crucial in investigating this link.

The Chair then invited **France**, through **Mr Benoît Coeuré**, president of the French competition authority, to offer perspectives on these issues given his background in the French Central Bank. **Mr Coeuré** said that the reasons behind the high levels of inflation are diverse and shared since they are a combination of demand factors. These demand factors add to the significant increase of the input costs since the beginning of the war in Ukraine. As they diffuse through the economy, these shocks interact in a complex way. In the end, it does not matter if it is a demand shock or a supply shock, but their consequences are different. When observing the levels of inflation experienced by income level, the European Central Bank found that the bottom quintile experiences inflation two percentage points higher than the 20% of households with the highest income. This type of information is useful for competition authorities because it reflects the differences in demand structures and in market structure.

Two dimensions help understand the role of competition authorities in times of inflation. First, the transversal dimension. As central banks act on inflation, competition authorities act on relative prices. Second, time. It is important to differentiate the impact of competitive intensity in the economy on the price levels and their impact on price variation. In the long run, elevated market power leads to higher prices, but not necessarily to elevated inflation. In the short run, the link between market power and price variation is much more complex because there are mechanisms that can act in opposite ways. On one hand, the companies whose market power is higher can exploit it to pass on the increase of their cost to their customers or suppliers, and on the other, the elevated margins allow companies to at least temporarily cushion the cost increase.

Mr Coeuré added that competition authorities want competition to be as perfect as possible. Therefore, companies cannot be blamed for passing on the increased costs to their customers. For instance, the French Ministry of Economy estimated the margin evolution across the food value chain for 12 products and concluded that the increase in sale prices is justified by the increase in the cost of raw products.

In order to limit the effects of price increases, competition authorities can sanction anti-competitive practices. They can also pay special attention to the windfall effects which

could lead certain players to take advantage of the general increase in prices to conceal anti-competitive behaviours. Further, competition authorities have an essential role to play as advocacy agents: in a defensive way, by advising governments to make sure that their action does not create distortions in competition; and in an offensive one, by intensifying outreach actions. Because of the political tension, restoring purchasing power is a popular measure, but with this type of reform there are always winners and losers.

Mr Coeuré concluded by adding his view that competition authorities should concentrate on their mission. According to him, they cannot have a significant impact on inflation. They get many requests from governments, but sometimes it is just to deflect responsibility. He also said that cooperation between competition authorities and the Central Bank is needed. Since some of the current phenomena are unfolding along international value chains, cooperation is fundamental to evaluate the constitution of margins along international commerce value chains. Since part of the transmission of cost shocks is international, trade policy will also have an impact on the market structure at the international level and a strong impact on the consumer and on the relative price structure.

The Chair then turned to the European Union and asked if inflation is lower when there is less competition rather than more competition. The **European Union** said that in their view, the relationship between increased concentration and inflation cannot be material in the long term for several reasons: first, because this claim is still not fully established. Second, because the reason for any increase in concentration matters. Third, because it is hard to explain a rapid increase in the rate of change of prices by a slow increase in the level of concentration. Fourth, because there has been no documented relationship between concentration and inflation in the past. Fifth, because the sectors or countries experiencing higher rates of inflation are not those which have become more concentrated. If the role of monetary and fiscal policy is excluded, inflation stems mostly from demand and/or supply shocks. There is no indication that competition policy is responsible for them, but market structure might be determinant of their rate of pass-through into price increases. Literature on this topic concludes that unless demand is unusually convex, greater market power magnifies the effect of demand shocks and dampens the effect of supply shocks.

The COVID crisis began mostly as a series of demand shocks, with some supply bottlenecks developing overtime. By contrast, the Ukraine crisis is best characterised as a set of strong supply shocks. Accordingly, while more concentrated market structure might have amplified early shocks, it should have dampened the price effect of the subsequent supply disturbances. The most reasonable reading of this situation is that it was triggered by strong supply shocks which could account for the levels of inflation. Competition policy could help by looking for sectors with rapid price increases as well as for communication between rivals. Special attention should also be paid to the times when inflation vanishes. Finally, competition authorities might help companies design temporary horizontal agreements, which help relieve supply bottlenecks.

The Chair then turned to **Consumers International** whose contribution stated that sometimes the drivers of supply side inflation are linked to a lack of competition. He asked what their analysis is based on and what conclusions they have reached. According to **Consumers International** the question is whether or not something additional to the instrument of restrictive monetary policy can be undertaken. Since they have few powers and a weak culture of support measures on pricing, competition authorities have held back from acting on pricing problems. However, Consumers International believes that people would like to see them do more in the pricing field. For instance, become involved in supply side analysis and policy actions, contribute to containing inflationary expectations, and specifically intervene when firms raise prices based on expectations of inflation. Using the concept of short-term market power, they could uncover, expose, and shame profiteering.

They could also more vigorously tackle prices that are high on a long-term basis and explore opportunities to deal with opportunistic exploitation of economic disruptions. In a period of public concern on the impact of high prices on the cost of living, the contribution of traditional competition instruments is modest. There are some measures governments could take in response to public concerns, and competition authorities could be tasked with some of them.

The Chair turned to Germany whose contribution explained how it mostly sees the relationship between competition and inflation as a short-term one and doubts that there is enough evidence to prove this relationship in the long-term. **Germany** said that the intensity of competition and price level are negatively correlated. This indicates that not enough is known about the extent and the time frame in which competition is influencing inflation. From the policymakers' side, this is unsatisfactory. In Germany, there was a public debate about a decree on cuts of the energy tax that was adopted as part of a relief package to consumers. The results are contradictory. On one hand, there is a comparison of pricing in a monopoly and in competition that shows that the rate of pass-through is higher in competition. On the other, there are mixed empirical results. First, competition is not the main cause of inflation and competition policy will not be one of the major cures. Since it is a long-term instrument, it cannot satisfy the need for immediate response. Therefore, instruments such as price caps will always be considered. Second, these limitations should not dominate the public debate because the contribution of competition may be used as a narrative. The current inflationary environment creates an opportunity to get important legislative projects passed. In Germany, the fact that high consumer prices set the focus on the beneficial effects was used to revise competition law earlier than planned.

According to **the Chair**, there is a hesitation between the long-term benefits of competition and the short-term fixes that can come. He turned to **Portugal** whose view is that there is likely to be an impact in the long-term and that this should orient the activity of the authority. In **Portugal**, as inflation trends became more evident, the authority felt that pressure would inevitably fall on it. Therefore, they published an issues paper on competition and purchasing power in times of inflation in August 2022. The paper demystifies some misperceptions regarding competition and inflation and puts forward some key messages: competition enforcement does not aim to directly address surging inflation, yet competition is even more relevant when faced with inflation, and antitrust enforcement and merger control are important to keep markets open and competitive and to deter conduct that could make inflation worse. They also argued for the benefits of eliminating unnecessary barriers to entry and expansion, and advocated on how competition policy enforcement can protect households' purchasing power. Since policymakers are more inclined to implement price controls when inflation rises, the issues paper raises awareness on the risks that price caps may bring to competition and how they can distort price signals and unintentionally lead to supply shortages. It warns firms that they should not use temporary supply chain disruptions or any form of public price announcement to disguise concerted practices. Portugal highlighted the importance of these initiatives in order to align expectations with policymakers and with the public, avoid pressure on competition agencies, and emphasise the medium and long-term value of their enforcement activity. Portugal said that the issues paper was well received and that its messages were considered by the government and parliament. Most price caps were avoided.

The **United States** intervened to ask if either more or less competition is wanted in an inflationary environment. Competition results in more output, lower prices, greater supply, greater access to markets, greater opportunity, and therefore it has to be invested in. The inflationary environment and the extent to which the authority engages in aggressive

merger control, antitrust enforcement, and cartel enforcement will determine the resiliency of markets the next time a shock is encountered. When looking at the role authorities are currently playing, the speaker sees businesses regularly claiming to raise prices because of supply chain shocks. However, what can be seen is that the profit-making and the margins are increasing. An increase in price signalling can also be observed. In a highly concentrated market this can lead to greater coordination. Competition helps. It is good for prices, for output, and businesses can exploit lack of competition in order to extract high margins and raise prices. This environment teaches authorities that they should be firm and that they should enforce the law but they should also make sure they are planning ahead because they have to make sure that they have competitive markets when they need them.

The Chair gave the floor to **Spain** for a final contribution on the first part of the discussion. They noted that competition policy often focus on price levels in a sector, not on how prices evolve overtime. Competition policy actions have a static structural nature and typically achieve one-off effects on prices, whereas inflation is a dynamic issue. However, in some cases, competition policy can help fight inflation, as negative price effects spill over to other sectors, and even on to the whole economy. If the markets are significant, they can have an influence on the prices of the whole economy and therefore influence how prices are formed. In addition, since competition policy promotes more efficient and competitive markets, it will affect price levels and, in certain scenarios, inflation, even if it is not primarily aimed at addressing inflation. It is also important to prepare for the next shock and to promote more flexible and efficient markets which can respond quickly to inflationary shocks and reduce their impact. In this respect, antitrust enforcement and advocacy can facilitate the faster restoration of price stability. Also, competition authorities should be aware of practices such as inflation washing and they should monitor key markets. Competition policy is not the primary tool, but it can help fight inflation.

The Chair turned the discussion onto the response of competition authorities to inflation, highlighting for example that competition authorities may recast their prioritisation criteria or the types of cases they take, which could help make their activity more directly relevant to the inflationary context. He then called on **Prof. Hal Singer** to offer his views. Prof. Singer said that he sees a competition angle when studying the problem of runaway prices. His belief is that price coordination is more feasible in a concentrated market and a small bout of inflation can serve as a facilitating device. He spoke of the trial of a Japanese executive whose company was embroiled in a price fixing conspiracy involving capacitors. The CEO told the jury that his capacitors' cartel functioned most efficiently during times of inflation. He offered two theories. The first, called softening the beachheads, is the idea that consumer resistance to a price hike may soften with inflation. The second, focal point pricing. Inflation solves a coordination problem by providing a floor for future price increases. Neither theory requires any increase in concentration.

He then spoke of housing in the US which contributes to 32% of the total CPI and about 40% of core inflation. In order to arrest inflation, they had to figure out what was driving rental inflation. He said that neoliberal economists try to explain it by looking for stories that blame consumers or workers, but his hypothesis is that maybe it is the firms setting the prices that are to blame.

He mentioned a Federal Reserve paper that found a connection between institutional ownership and rent to income ratios in metropolitan statistical areas in the United States. They looked into Florida rental prices and constructed the footprint of property owners in each neighbourhood. They colour-coded them according to their Herfindahl-Hirschman Index (HHI). The Zillow Observed Rent Index (ZORI) tracks the average HHI across all neighbourhoods. This relationship did not explain rental inflation, but suggested that higher concentration is associated with higher rents. However, there appears to be a jump in the

average HHI at the beginning of 2021. To investigate this relationship further, they built a regression model that sought to relate concentration with the rent levels and rental inflation. From 2015 to 2022, the average rental inflation across the sample was about 9% and there was a relationship between HHI and inflation. However, he noted that using HHI or concentration as an explanatory variable in regression is controversial.

The main finding is that both rental levels and rental inflation are statistically and economically correlated with the level of concentration within a neighbourhood. Raising interest rates puts home ownership out of reach for millions of families, driving them to rental properties. This perversely bids up rental rates, which is one of the primary drivers of inflation. The study suggested imposing an ownership limit on the amount of properties an individual owner could control in a given neighbourhood, but Dr Singer is advocating for a prohibition brought by legislative or regulatory bodies that would set a limit on the fraction of the units an individual owner could possess within a given neighbourhood.

The Chair then turned to **BIAC** whose contribution stresses the idea that inflation offers firms the possibility to hide behind it and engage in anti-competitive practises. **BIAC** strongly believes that competition policy should be part of the solution to help address the rising cost of living. Competitive markets are more agile, prompt, and effective at responding to economic disruptions and at promoting economic growth and innovation. As such, competition policy is a key element in resilience and recovery. While competition enforcement can mitigate the effects of high inflationary periods, it should not stretch the role of competition law by overestimating its ability to tackle inflation.

In **BIAC'S** view, competition authorities should focus on removing unnecessary barriers to entry or expansion; helping markets rapidly adjust to supply or demand shocks; and engaging with businesses in order to remedy distortions in a non-adversarial way. According to them, increased vigilance on price movements is also needed. A general backdrop of steadily increasing prices may hide high prices that are also partly the result of the anti-competitive behaviour. Inflation can make anti-competitive price increases harder to detect, and its causes may present temptations and excuses for competitors to coordinate illegally. **BIAC** also said that competition authorities should have a critical advocacy role. They should assess the risks of any proposed price control measure and take steps to ensure that any government outreach to the private sector is conducted with full appreciation of competition laws. Finally, they should respond pragmatically to specific situations that may require competitive collaborations.

The Chair then turned to the **United States** and Ms **Lina Khan**, chairwoman of the Federal Trade Commission (FTC). **Ms Khan** said that the way in which competition policy and antitrust enforcement have created market structures and conditions can amplify and exacerbate the effects of outside shocks and disruptions. Market concentration can also concentrate risk in ways that make markets much more fragile.

In the context of oil and gas, there is significant consolidation among refiners. Overall, refinery capacity is a fraction of what it was. This means that when there is a single outage or disruption, there are immediate effects on prices. If market structures were more resilient, this might not be the case. There is also the issue of short-term opportunism, in which firms may be using inflation as a cover for price hikes. The Federal Reserve officials in the US have noted that, when the inventory to sales ratio goes up, margins start to go down. Currently, as the inventory to sales ratio goes back up, margins are staying the same or even increasing. This is creating anomalies. Beyond that, there has been shrinkflation, as well as the proliferation of unwanted or hidden fees that firms are adding to consumers' bills.

In 2021 FTC initiated a market study into supply disruptions. It ordered nine major wholesalers and retailers to turn over information so that they could better understand how market power may be exacerbating the effects of supply constraints. In 2022, they started a market inquiry into the infant formula shortage, trying to understand what was the role of competition policy and other policies in creating such a fragile market structure. FTC is also revising merger enforcement, in terms of relying more on structural presumptions instead of looking solely at effects. As they do this, they are thinking of how resiliency can be incorporated as a concern. Lastly, enforcement tools are being activated to address opportunism. This includes scrutinising the earnings calls and other ways in which executives may be engaging in price signalling. FTC is going after opportunism by scrutinising junk fees. The Biden administration has prioritised the government approach to competition policy, as well as junk fees and other types of practices that may be contributing to higher prices. In order to maximise their impact, FTC is deepening its relationships with other enforcement agencies.

The Chair turned to **Chinese Taipei**, whose contribution provided interesting details on how it monitors prices. He asked them to explain their data collection activity in this area. **Chinese Taipei** said that to prevent firms from using inflation as an excuse to increase prices, the CTFTC set up a task force to cope with the price fluctuation of daily necessities. The items to be monitored include agriculture and livestock products, bulk materials and their end products, and everyday commodities. In addition, CTFTC has performed an analysis to identify the changes of CPI in Chinese Taipei and major countries. They have focused on ensuring price stability and monitoring supply and demand conditions. In 2008, the commodity price stabilisation task force was established with members from over ten authorities, including the CTFTC. In the fight against inflation, the CTFTC is mainly responsible for concerted actions. In terms of price monitoring, the National Development Council has cooperated with the Council of Agriculture, Ministry of Economic Affairs and other competent authorities to set up the pre-warning mechanism for daily necessities of regular monitoring. In their experience, the cooperation between government agencies as well as private sectors might be best to contribute to lowering inflation. Furthermore, the CTFTC is conducting investigations relying on its expertise in market structure. As of 2022, it selects key sectors for industrial supply chain data construction in order to help strengthen its future investigations.

The Chair mentioned that in **South Africa** there has been a very active monitoring of essential food items. He asked them to describe their system. The **Competition Commission of South Africa** considers that inflationary outcomes may be exacerbated by the exploitative and opportunistic behaviour of firms in concentrated markets. Given the history of state support, South African economy is characterised by high concentration across numerous value chains, which led to many oligopolistic markets.

The research conducted by South Africa since the beginning of the pandemic shows that some firms exploit economic turbulence to pass-through higher than justified price increases and are slow to bring down these prices once conditions stabilise. This is the rocket and feather effect. In 2020, using publicly available data, the Commission began to actively monitor essential food prices. They found that a proper assessment could not be performed using publicly available data. As a result, the Competition Commission initiated an investigation against major producers and retailers of sunflower and cooking oils. Aside from food markets, the persistent complaints around the increases in fares resulted in the Commission investigating domestic airlines for excessive price inflation. The Commission has found proactive monitoring and advocacy to be effective tools for intervening in markets and dealing with economic shocks.

The Chair said that there are countries that are more reserved about actively monitoring prices, for instance **Brazil**, which is not engaged in a particular monitoring of prices and wants to call attention to the fact that high prices are not necessarily anti-competitive practices. In the 1990s, **Brazil** helped better understand the phenomenon of initial inflation as it helped control inflation by the indexation of its economy. Moreover, only after it controlled inflation through a new competition law, Act 94, the Brazilian Competition Authority has taken a more active role in antitrust enforcement. Their contribution presents a historical overview of the fight against inflation, and discusses some theoretical perspectives related to the relationship between competition law and inflation. During the pandemic, the Administrative Council for Economic Defence (CADE) often reminded congress members that bills aiming to freeze prices would cause product shortages and fail to control inflation. Their experience demonstrates how the direct control of prices can create undesirable pricing equilibrium from the competition perspective. On the other hand, enforcing competition policy increases consumer welfare, creating a desirable aggregate effect for all of society. Furthermore, they said that inflation may be correlated to the increasing number of merger cases and that they may need to revise their thresholds in order to keep the number of notifiable cases constant over time.

The Chair then turned to Romania and asked them to elaborate on the complex balance between monitoring prices while not intervening on them. **Romania** said that it is quite unusual for a competition authority to look at inflation. The pandemic slowed down economies and inflation went down. Economy was redesigned in that period and became more digitalised. As expected, it followed the post pandemic recovery and the lifting of restrictions. Demand was a more enthusiastic and people had cash reserves to spend, so inflation increased. The invasion of Ukraine put long-term pressure on key inputs which have further spill over effects on other prices, and other markets. The effect of inflation is spreading all over the economy. There are four amplification factors for inflation: panic and spending, the effect on the velocity of money circulation, consumer desensitisation to price increase, and exposed markets which are energy dependent and have a low level of competition.

Romania is currently trying to process as much data as possible to be prepared and to understand which are the markets where there are inflation dangers. They implemented an interoperability platform in order to aggregate data from other institutions, as well as a big data project which unites several tools in order to operate and process the data.

The Chair mentioned that **Turkey** started a market investigation in the retail sector and found a major hub and spoke cartel which inflated prices. He asked what were the indications that led to the market investigation? **Turkey** explained that following the COVID-19 outbreak, supply shortages and extreme price increases were observed in many products. In order to determine whether they resulted from anti-competitive behaviours, the Competition Board initiated many examinations analysing the production and distribution processes of the related products, the undertakings that play a role in these activities, and the relations between them. One of the most important ones was the retail investigation. By examining the evidence and price data, the Board concluded that five of the investigated retailers shared competitively sensitive information. They did this directly or via common suppliers. The Board decided that the five retailers and the supplier violated the Competition Act, characterising the infringement as a hub and spoke cartel. It imposed administrative fines on cartel participants, and an additional fine on the supplier that also violated the Competition Act by resale price maintenance. This decision shaped Turkish competition law enforcement in the retail sector. It helped understand that the common way of doing business may cause competition law violation. Investigations in the retail markets indicate that anti-competitive conduct may aggravate inflationary effects of supply and demand shocks.

The Chair then turned to **Hungary** and asked about their accelerated market study procedure and why they felt it was necessary. **Hungary** said that in order to help tackle inflation and create transparency on what is driving prices up, they introduced an accelerated inquiry tool. It has a limited approach that focuses on prices and the time limit is 30 days. They also communicate on the reasons of price increase in different sectors, and on the pro-competitive measures that can be applied to reduce inflation. In the past 1.5 years, they executed five accelerated sector inquiries following the price transmission approach. They analyse the different stages of the supply chain and check how prices change from one state of the supply chain to another. They also check how price increases are associated with the cost increase that the company had to absorb. One of the cases they analysed concerned the COVID-19 antigen test whose price was much higher than in neighbouring countries. They identified that the main problem was that the supply chain was too long. They suggested that drugstores, supermarkets, and petrol stations be allowed to sell the test. This removed the entry barrier and resulted in a price decrease of about 50%.

The Chair said that the last tool that is used by competition authorities is advocacy. He then turned to **France**, and the **DGCCRF**, the competition division of the French Ministry of Economic Affairs, which is in charge of promoting competition policy within government. Since inflationary effects may be stronger for some categories of French citizens, the French government adopted a law to limit the extent to which prices could be negotiated with farmers. One of its possible impacts is to facilitate inflation. How does one manage to promote competition while making sure that there is no negotiation of the prices? The **DGCCRF** said that its action is complementary to competition policy. It allows professional federations to alert the Ministry of the Economy when they notice anomalies which then make it possible to launch investigations, and they implement consumer protection measures. The DGCCRF was able to carry out investigations in the field of shrinkflation and in sectors which have a strong impact on consumers. There are also the legislative measures that decided to strengthen the right of consumers to terminate contracts electronically so as to allow them to bring price and competition into play and therefore reinforce the possibility of changing suppliers when the price increases.

Some of the measures implemented to supervise negotiations between agricultural producers and large retailers are the ban on price discrimination in negotiations, the formalisation of more binding written contracts, or the supervision of promotions. They were intended to allow better sharing of added value between distributors, suppliers, and farmers, and to maintain a certain income for farmers. An independent study showed that over a few months, there was a 0.17% increase in the price level in this area, which is not statistically significant. Furthermore, there was the “Egalim 2” law which led to a drop in distributor margins.

The Chair pointed out that in its contribution, **Austria** mentions how it cooperates with other government agencies, particularly through an expert group that was set up by the federal government to observe and analyse inflation developments. It operates under the joint chair of two ministers, and together with various other institutions. Its aim is to monitor price developments, identify causes, and assess possible countermeasures. It provides for a decision-making basis and reports are sent to the Council of Ministers and the Austrian Parliament. From an advocacy perspective, the competition authority makes sure that competition principles are well reflected and applied in a non-discriminatory way. The first report was submitted in June 2022 and contained 105 proposals for fighting inflation. The authority highlighted and commented potential distortions of competition related to these measures. Topics such as energy and food price compensations were covered, but there were also very general suggestions for different sectors. The measures that concerned the agency directly, suggested an increase of its budgetary resources and an

extension of the number of sector inquiries. The second report that will be submitted will include the findings of a sector inquiry into the fuel market.

The Chair said that when it comes to convincing the government not to use or to overuse price controls, competition authorities have encountered mitigated success. This is the case of **Lithuania**. In **Lithuania**, during the periods of high inflation or high prices, the competition authority warns policymakers of the potential negative effects of measures instated to regulate prices. At the beginning of the pandemic, the Cabinet of Ministers suggested giving the government the power to regulate the prices of essential products. The Competition Council explained that this could cause even more serious issues. It also proposed some alternative methods on how to deal with the potential perspective of high prices: state support could be given in order for economic entities to invest in additional productive capacities, and regulatory barriers could be removed or reduced. These measures could have expanded the supply of the most essential goods and prevented high prices. These recommendations were not considered, but in the end, despite approval from Parliament, the President vetoed the law and blocked the process. The Parliament accepted the veto and refused any initiatives to regulate prices of the wholesale and retail supply. This outcome was in line with the Council's recommendation.

The Chair called on **Argentina** whose case is unique because of its long continuous periods of high inflation. The Argentinian Competition Authority has experience in addressing the demands of solutions to inflation that come from the administration and constituents. This is something that other agencies have only recently begun to deal with. The authority advises government agencies on the limited markets in a context of high inflation. Inflation can undoubtedly induce a sense of urgency to implement some regulatory measures. The role that sectoral regulators can play in promoting competition in the markets they oversee cannot be underestimated. Market studies are usually a good way to understand the dynamics of particular markets and the regulation that structures them. Many investigations can therefore result in pro-competitive recommendations to address any aspect of the regulatory framework that might be acting as a barrier. However, there are no short-term policies in order to fight inflation. This does not mean that the competition authorities cannot profit from the boost given by the context of high inflation to give pro-competitive recommendations when detecting barriers to entry.

The Chair invited the experts to share their final thoughts. **Ms Chen** said that the divergences raised by the points of view of the different countries tell her that more research is needed. **Mr Singer** asked regulators to be vigilant. He said that firms can use communications on earnings calls to coordinate anti-competitive outcomes. **Mr De Loecker** said that he was excited about this space where micro/macroeconomists, policymakers, and antitrust practitioners can discuss this matter. To conclude, the Chair said that it is very clear that price increases and inflation are on the radar of competition authorities.