

Unclassified

English - Or. English

27 November 2024

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

Executive Summary of the Roundtable on Competition and Inflation

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

29 - 30 November 2022

This Executive Summary by the OECD Secretariat contains the key findings from the Roundtable on Competition and Inflation, held by the Competition Committee on 30 November 2022.

Please contact Mr Antonio CAPOBIANCO if you have questions about this document.
Email: Antonio.CAPOBIANCO@oecd.org

JT03556366

Executive Summary of the Roundtable on Competition and Inflation

By the Secretariat*

The OECD Competition Committee held a Roundtable on Competition and Inflation in November 2022. Based on the background paper prepared by the Secretariat, written submissions from delegates, and the contributions by expert panellists and delegates to the discussion, the following key points emerged.

1. The relationship between competition and inflation is complex and could benefit from further research. Nonetheless, while levels of competition are unlikely to be the main determinants of inflation, it is possible that competition issues could exacerbate inflation rates, with more competitive markets having the potential to reduce inflationary pressures.

Inflation can have many diverse causes but is typically driven by large external demand or supply shocks. Further, while there is a clear relationship between price levels and competition, the relationship between inflation and competition is less clear-cut. Market structures can affect how shocks are transmitted to prices, and more competitive markets could theoretically lead to lower or higher inflation, for example if competitive markets pass through cost shocks more quickly. More broadly however, competitive markets are likely to be more innovative and flexible, which may reduce downward pressure on inflation.

There is some evidence to suggest a negative relationship between competition and inflation, especially over the medium to longer-term, although it is not conclusive. In the discussion, delegates presented mixed views about the strength of the relationship between competition and inflation, but were broadly in consensus that it was unlikely to be a key determinant in any event. Further, the ability of competition policy to substantially impact inflation, especially in the short-term, was low, with other policy options required to address it. Nonetheless, through competition's role in lowering prices more generally, delegates highlighted the ability for competition policy to apply downward pressure on inflation, and at least help ensure that anti-competitive behaviour did not exacerbate it.

2. Despite a lack of competition not being a main driver of inflation, when prices rise, competition will come under the spotlight, and competition authorities should expect to come under pressure to take action. Further, authorities should be aware of the potential for anti-competitive behaviour to further heighten inflation.

The discussion highlighted that regardless of the short-term links between competition and inflation, competition authorities are likely to come under pressure to take action in times of higher than usual inflation. In some circumstances, this could manifest through expectations to initiate investigations or even penalise firms that have raised prices, or even through demands to actively intervene to lower prices in important sectors. Delegates broadly agreed that in many cases the expectation that fell on authorities did not correlate with their actual legal powers, particularly if price rises did not relate to anti-competitive behaviour.

* 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.

Nonetheless, anticompetitive conduct by firms during times of inflation may lead to further upward movements in price, exacerbating the issue. Competition authorities should therefore be vigilant towards firm behaviour that seeks to use an inflationary setting to reduce competition and further raise prices. For example, firms may seek to use times of inflation to provide cover for further price increases, and could seek to coordinate with rivals through illicit conduct such as the exchange of information. As well as being vigilant for all forms of anti-competitive behaviour, authorities should monitor attempts by firms to share pricing announcements intended to coordinate with rivals and, if they are able within their legal frameworks, act if they encounter it.

3. In times of high inflation, as well as active monitoring and vigilant enforcement, there are several tools available to authorities which may help them respond to the likely pressure they will face to take action.

The discussion identified that market studies can provide a mechanism to help authorities understand the extent to which price rises are related to competition issues, allowing them to propose remedies for any issues identified or otherwise provide clarity on their causes. In some jurisdictions, expedited studies ensure that the outcomes are timely and can respond more promptly to periods of inflation. In deciding where to conduct market studies during periods of high inflation, or monitor for anticompetitive behaviour more generally, authorities may wish to consider focusing on sectors where large price increases are being observed, as well as those of significant structural importance to the economy, such as energy markets.

More generally, authorities may wish to make increased use of advocacy during times of inflation. Advocacy could be used in a variety of ways, such as to warn firms against anticompetitive behaviour to deter wrongdoing, to advocate for pro-competitive reforms that could lower prices, as well as to provide arguments to ensure competition is taken into account when considering the introduction of regulatory interventions, such as price controls. In combination with market studies, it was noted by delegates that periods of high inflation can provide an opportunity for authorities due to the increased attention on competition and this could be used to highlight its benefits and positive role in the economy.

4. Cooperation with other parts of government may be useful for authorities, allowing them to provide expertise into regulatory decision making as well as to access pricing data to improve their monitoring functions.

Several delegates spoke about their positive experiences in working with other parts of government during times of inflation, noting that competition policy must work alongside other policy tools if it is to play a role. Such collaboration improved the ability of the authorities to explain the benefits of competition, for example to highlight the risks of some types of government intervention.

Working with other parts of government also has the potential to provide otherwise unavailable pricing data, which authorities may find useful as part of their broader efforts to understand the extent to which competition issues are relevant to observed price rises. For example, disaggregated pricing data may allow authorities to understand where pricing increases are most prominent, while cost or margin data could highlight where price increases are being potentially driven by increases in profit, rather than costs, which could warrant further investigation of competition issues.