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Competition and Inflation – Note by Chinese Taipei

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More documents related to this discussion can be found at
www.oecd.org/competition/competition-and-inflation.htm

Mr Antonio CAPOBIANCO
[Email: Antonio.CAPOBIANCO@oecd.org]

JT03506707

Chinese Taipei

1. This report introduces the role of the Fair Trade Commission of Chinese Taipei (CTFTC) in competition policy in the fight against inflation, and shares related cases and law enforcement experience.

1. The Position of the CTFTC Regarding Price Stabilization

2. The Fair Trade Commission (CTFTC) is in charge of the enforcement of the Fair Trade Act. The word “price” appears eight times in the 51 articles of the Fair Trade Act. Therefore, price is an important element in the process of competition law enforcement. In Chinese Taipei, the Fair Trade Act empowers the Fair Trade Commission to investigate price fluctuations in daily necessities, including: (1) the abuse of market power by monopoly enterprises, where monopoly enterprises improperly set, maintain or change the prices of goods or the remuneration for services; (2) horizontal price agreements, where an enterprise jointly determines the prices of goods or services with another horizontal competing enterprise by means of a contract, agreement or any other form of mutual understanding; (3) resale price restrictions, where an enterprise restricts the object of its transaction with respect to the price at which the supplied goods are resold to a third party or resold by a third party; (4) other actions that restrict competition, including the use of coercion, inducement with interest or other improper means that would cause another enterprise to refrain from competing in price, take part in a concerted action, or impose vertical restrictions on competition. An administrative investigation by the CTFTC is intended to ensure the maintenance of market competition order.

3. The rise and fall, or fluctuation, of prices is a general expression of overall economic activities and the change in economic prosperity. The causes that affect the rise in prices include factors on the demand side (prosperity) as well as on the supply side (cost). If the rise or fall in commodity prices is determined by individual enterprises taking into account market supply and demand and their own marketing strategies, the price fluctuations may be the result of the market functioning. If it is found that the price of a particular commodity continues to rise, especially if the structure of this industry is a monopoly/oligopoly market and there is no objective influence of supply and demand factors, the CTFTC will pay special attention to it and observe whether there is any evidence of manipulation. If necessary, the CTFTC will take the initiative to launch an investigation.

4. As for a long and sustained rise in prices (inflation), this will depend on the monetary policy of the central bank and the fiscal policy of the competent authorities for various industries as they attempt to bring prices down. It is not the CTFTC’s statutory responsibility to regulate prices. In addition, after conducting an investigation, the CTFTC may penalize enterprises that are jointly raising prices in violation of the law. The CTFTC may order them to stop implementing a joint price increase and correct their illegal acts. It will be necessary for such enterprises to abandon any concerted action agreements to restore competition, but they will not be required to return to prices deemed reasonable by the CTFTC. The legislative purpose of the Fair Trade Act places emphasis on free and fair competition. If it were also to give the CTFTC the power to determine reasonable prices, there would be a conflict in terms of its role.

2. The Setting Up by the CTFTC of the “Price Manipulation Prevention Task Force”

5. As the prices of daily necessities continue to rise, in order to prevent enterprises from jointly raising prices, limiting resale prices, and determining prices improperly in the case of monopoly enterprises, the CTFTC set up the “Price Manipulation Prevention Task Force” to cope with the price fluctuations of daily necessities as early as May 2007. The purpose of this task force is to actively monitor prices. If there are consistent price adjustments, they are likely to be the result of concerted actions by enterprises. At such times, the CTFTC will commence an administrative investigation. Moreover, in the course of the investigation, it will remind relevant enterprises to comply with the related provisions of the Fair Trade Act and not to take the opportunity to raise prices jointly. The items to be monitored include the prices of important agricultural and livestock products, bulk materials and their products, energy, festival commodities and other products. In addition, since September 2016, the CTFTC has also performed a Consumer Price Index (CPI) analysis to understand the changes in the CPI in Chinese Taipei and major countries/regions. The CPI analysis meetings are held before important festivals (including the Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival). Its data sources include the public databases of the competent authorities of various industries, paid databases set up by private research institutes, outsourced market research data and other channels. If it is found that there are increases or abnormal fluctuations in the prices of important daily necessities, the CTFTC will actively intervene. In addition, it will send timely warnings to enterprises or associations and groups, and release news and information in real time to lower people’s expectations of price increases.

3. The Role of “the Commodity Price Stabilization Task Force of the Executive Yuan” and the CTFTC in Fighting Inflation

6. In 2008, the Executive Yuan established the inter-ministerial “Commodity Price Stabilization Task Force.” Its convener is the Vice Premier of the Executive Yuan, and its members come from more than 10 competent authorities of various industries, including the Central Bank of Chinese Taipei, the CTFTC and other government agencies. According to the division of labor by “the Commodity Price Stabilization Task Force of the Executive Yuan,” the CTFTC shall actively commence investigations into abnormal prices of goods and services, so as to investigate whether there is any manipulation or joint monopoly behavior. If it finds that there are enterprises engaging in illegal acts, it could impose adjudication and penalties on them according to the Fair Trade Act. During the course of investigating concerted actions, if it is found that individual enterprises or natural persons intend to increase transaction prices or hoard daily necessities, since these acts involve criminal liabilities (Article 251 of the Criminal Code of the Republic of China), the CTFTC may turn the investigation over to the judicial authorities for legal prosecution.

7. In addition, the CTFTC only has the power of administrative investigation, but does not have any judicial investigative tools (e.g., search and seizure). Therefore, the CTFTC implemented a leniency policy and increased fines in January 2012. In October 2015, it set up a whistle-blowing reward system against concerted actions. On November 17, 2021, it passed an amendment to the rewards, and significantly increased the amount of the whistle-blowing rewards. Through these measures, it hopes to find illegal acts through multiple channels, such as the surrender of the involved enterprises and whistle-blowing by insiders.

8. As discussed above, in the fight against inflation, the CTFTC is mainly responsible for investigating concerted actions according to the law, and it does not exceed the scope of the powers and responsibilities granted to it by the Fair Trade Act. In terms of market

price monitoring, at the 77th meeting of “the Commodity Price Stabilization Task Force of the Executive Yuan” held on January 18, 2022, “measures to strengthen price stability” were discussed. The National Development Council has cooperated with the Council of Agriculture, Ministry of Economic Affairs and other competent authorities of relevant industries to plan the early warning mechanism for daily necessities. Regular monitoring and analysis of quantity and price shall be carried out, and signals based on early warning lights (a red light, yellow light, or a green light) shall be determined according to the extent of the price increase. If the competent authorities of various industries find that there are abnormal market price changes or that enterprises are involved in raising prices jointly, they can provide evidence and forward it to the CTFTC for investigation. Through the above measures, a division of labor and cooperation between various government departments could be realized, so as to achieve the goal of price stability.

4. Recent Price Changes and the Government’s Measures to Stabilize Prices

9. In recent years, due to COVID-19 and the Russia-Ukraine war, there has been an increase in the prices of international raw materials, and this has led to the lingering shadow of inflation. Chinese Taipei relies on imports for most of the bulk materials and raw materials it needs, and its dependence on imported energy increased to 97.4% in 2021. Compared with other countries and regions, the increase in raw material, energy and other costs has affected Chinese Taipei more seriously. Since April 2021, Chinese Taipei has felt the pressure of rising consumer prices. In the five months from March to July 2022, the CPI increased by more than 3 percent (between 3.27% and 3.59%) compared to the same period last year. It is estimated that the annual CPI growth rate in Chinese Taipei will be between 2.3% and 3.16% in 2022. Currently, the Producer Price Index (PPI) and the Wholesale Price Index (WPI) remain at elevated levels. Both indexes rose more than 10 percent in August 2022 compared to the same period last year. This shows that manufacturers and wholesalers are still facing pressure from increasing raw material and purchase costs. Therefore, Chinese Taipei continues to implement measures to stabilize prices. Recent measures to stabilize prices are shown in the following table:

Policy (Competent Authority)	Description
Strictly investigate and penalize monopolies, hoarding, and bidding up prices (CTFTC, Ministry of Justice)	CTFTC: actively investigate and penalize the joint raising of prices. Ministry of Justice: investigate and penalize illegal acts related to people's livelihood and prevent the bidding up of prices.
Maintain the stability of oil, gas and electricity prices (State-owned enterprises under the Ministry of Economic Affairs)	In September 2022, the price of gas in tanks and natural gas continued to stop rising (except for users in the electricity industry). From October 2022 to March 2023, the electricity price will not increase. The price of oil has also activated the dual smoothing mechanism.
Reduce the tax burden on key raw materials (Ministry of Finance)	Flexibly waive business taxes on imported soybeans, wheat and corn, and flexibly reduce tariffs and cargo tax rates on wheat, beef, cement, gasoline, diesel and other products until the end of December 2022.
Stabilize the prices of agricultural products and industrial raw materials (Council of Agriculture, Ministry of Economic Affairs)	Council of Agriculture: Monitor the supply of agricultural products and make timely adjustments to stabilize prices, and stabilize the supply of feed and fertilizer to reduce production costs. Ministry of Economic Affairs: Coordinate steel enterprises to provide priority to Taiwan demand; Sand and gravel are to be sold at a fixed price to ensure the stability of the price of construction materials.

5. Cases of Penalties by the CTFTC Against the Joint Price Increases by Dried Scallop Enterprises and Fishery Ice-making Enterprises

10. Chinese Taipei relies on imports for most of its bulk materials and energy. In recent years, the imbalance in the global supply chain caused by COVID-19, the further increases in the prices of natural gas, oil, coal and other imported energy due to the Russia-Ukraine War, as well as the depreciation of the New Taiwan Dollar and other factors, have resulted in increases in sea freight and electricity prices in Taiwan. Some enterprises in different industries have gradually raised their prices due to the increase in costs.

11. The port congestion of sea transportation in 2021 caused freight rates to rise, and importers adjusted their prices to reflect higher sea freight and import costs. However, the CTFTC found that the price of dried scallops (a festival commodity) increased by more than 20 percent during the Chinese New Year holiday in February 2022. In July 2022, it was reported by media that three fishery ice-making enterprises in Magong City of Penghu County had raised their prices of ice simultaneously in response to higher electricity prices. All the above enterprises had announced that they were raising prices due to increased costs. However, the CTFTC conducted investigations to see whether there were joint price increases by competing enterprises during the process of raising prices.

12. During the investigation, it was found that for a long time there have been mostly two groups engaging in the import of dried scallops in Taiwan. Together, the two groups account for 70% of the imports of dried scallops, and they claimed that the import cost of dried scallops had increased by almost 30%. Moreover, the fishery ice market in Penghu County is highly dependent on the supply of three ice-making enterprises. On June 28, 2022, the media reported that electricity prices would be raised in the summer. Claiming that the Taiwan Power Company would raise electricity charges, these 3 fishery ice-making enterprises jointly raised their prices of fishery ice on July 1, 2022 and made an announcement. In its investigation, the CTFTC found that both the dried scallop enterprises and the fishery ice-making enterprises used LINE, a messaging software, to communicate

market information and other sensitive price-related information with horizontal competitors before jointly raising their prices. Finally, the CTFTC imposed a total fine of NTD 5,000,000 (about USD 0.17 million) on the dried scallop enterprises and a total fine of NTD 300,000 (about USD 10,000) on the fishery ice-making enterprises. The penalty from the CTFTC will have an effective deterrent effect on enterprises with unlawful intent and will warn enterprises not to jointly raise their prices even if there is a cost factor involved.