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

Competition and Inflation – Note by Austria

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This document reproduces a written contribution from Austria submitted for Item 12 of the 139th OECD Competition Committee meeting on 29-30 November 2022.

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

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1. Introduction

1. The Austrian Federal Competition Authority (AFCA) has always been very active in addressing suspected distortions of competition.

2. During the past lowinflation environment, inflation did not play a major role in competition analysis. While the positive relationship of competition and low prices is widely accepted among stakeholders, the link between competition and inflation is more unclear. With inflation currently overshadowing market outcomes, it can be unclear if price or cost increases are due to market dynamics or also effected by competition issues. Inflation related issues could certainly emerge within investigations, for example, when applying an as-efficient-competitor test. Improving the understanding of the relation between competition and inflation is helpful when addressing such questions. Therefore, the AFCA welcomes the initiative by the OECD. While engaging in such issues, authorities have to find solutions, which are important to share.

3. Thus, this contribution addresses experiences of the AFCA from recent activities, which can be linked to some extent to inflation: First, our participation in the expert group for the observation and analysis of the inflation development by the Austrian government, where the authority is an active member. Second, our recently published sector enquiry fuel market, which was initiated due to an increasing number of complaints about price increases. In these particularly difficult economic times the agency focuses on markets that are relevant for consumers and the economy as a whole, that includes energy markets. BWB initiated an investigation into the Austrian pellets market with dawn raids that took place between 18.-20. October 2022. The final chapter concludes with some lessons learned.

2. Activities by the AFCA

2.1. Expert Group for the Observation and Analysis of the Inflation Development (EBAI)

4. The ongoing massive price increases affect everyone living in Austria. People with low incomes are particularly hard hit. The Austrian federal government has therefore set up an "Expert Group for the Observation and Analysis of Inflation Developments" (EBAI), to which social partners, economic researchers and representatives of important social groups have also been invited.¹

5. The expert group has been established under the joint chairmanship of the Federal Ministry of Finance and the Federal Ministry of Social Affairs, Health, Care and Consumer Protection in April 2022 and monitors price developments, identify causes and assess possible countermeasures. The aim of this group is to submit regular reports with analyses and possible measures. Report are submitted to the Council of Ministers and the National

¹ https://www.bundeskanzleramt.gv.at/dam/jcr:e54d114a-84c3-4fb5-8377-42aade777654/20220330_medieninfo_inflationsmonitoring.pdf (only available in German)

Council. It is intended to provide an even better decision-making basis for potential measures.

6. The following tasks are given to the expert group:
- Monitoring of inflation developments and their economic impact;
 - Identification and monitoring of inflation drivers as well as analyses of the functionality of the markets; and
 - Development of countermeasures within the meaning of the federal constitution, i.e., with the aim of a macroeconomic equilibrium and sustainably orderly budgets.
7. A wide spectrum of institutions are invited to participate: Federal Ministry of Finance (Chair); Federal Ministry of Social Affairs, Health, Care and Consumer Protection (Chair); Federal Ministry for Digitization and Business Location; Federal Ministry for Climate Protection, Environment, Energy, Mobility, Innovation and Technology; Federal Ministry of Agriculture, Regions and Tourism; Federal Ministry of Justice; Federal Chamber of Labor; Austrian Federation of Trade Unions; Austrian Federal Economic Chamber; Austrian Chamber of Agriculture; Austrian Federation of Industry; Federal Youth Council; Seniors' Council; Economic Research Institute WIFO; Institute for Advanced Studies; Austrian National Bank; AFCA; E-Control; Fiscal Council; and Statistics Austria.
8. From an advocacy point of view, the contribution of the AFCA as competition authority ensures that the competition principal is heard already in the developing process of countermeasures.

2.1.1. First report: initial assessment

9. The Expert Group submitted its first report to the government on June 15, 2022 and to the parliament on June 27, 2022. The report provides the federal government and the parliament with an initial assessment of inflation developments, as well as suggestions for potential countermeasures against inflation and its effects. The experts, in particular representatives of federal ministries, interest groups and independent expert organizations, have submitted, discussed and commented on a total of 105 proposals for fighting or cushioning inflation. The report presents the respective advantages and disadvantages of a proposal and, as far as possible, the budgetary consequences. These proposals and ideas include both short-term and long-term structural measures.²

10. The AFCA focused on commenting on the proposals to highlight potential distortions of competition and to ensure non-discrimination, the addressed topics range from energy and food price compensations or very specific proposals to more general ideas to support various sectors or groups of companies. The measures particularly important to the AFCA are the proposed increases of its resources and the expansion of the number of sector inquiries. Both aim at strengthening effective enforcement of competition law to ensure fair competition. In this regard, the AFCA started a sector inquiry into the food sector and welcomes the more than necessary increase of its regular budget by € 2.4 million to € 5.9 million by January 1, 2023.

11. The following list shall give a brief overview of the proposals in the first report³:

² <https://www.sozialministerium.at/Themen/Soziales/Soziale-Themen/Allgemeine-Sozialpolitik.html> (only available in German)

³ EBAl, EXPERT:INNENGRUPPE ZUR BEOBACHTUNG UND ANALYSE DER INFLATIONSENTWICKLUNG (EBAl), 1.Bericht (2022),

- Among the income-boosting measures, there are several proposals on "cold progression" in the broad-impact measures.
 - Several proposals have been put forward to increase social and family benefits or disposable household income, especially for low-income recipients or vulnerable groups.
 - Some of these proposals relate to increasing existing assistance.
 - In addition, there are proposals for certain groups (pensioners, children and young people, employees, commuters).
 - With regard to measures to curb inflation, proposals have been made for pro-competitive measures, the reduction of indirect taxes/fees, price caps and inflation-reducing measures in the area of housing rents.
 - There are proposals for businesses and agriculture.
 - Support for companies with high energy and commodity costs, but also a reduction in non-wage labour costs.
 - Taxes on windfall profits.
 - Among the other measures, some proposals concern opportunities for energy savings or increased energy efficiency, or the expansion of public transport and renewable energy sources, as well as (de)regulation proposals and taxes.
12. The second report is currently in preparation. Among other things, the report will include a section about the sector inquiry fuel market by the AFCA.

2.2. Sector Inquiry Fuel Market: An Analysis of Prices, Gross Margins and Market Conditions of Fuel Stations and Refineries

13. Against the background of sharply rising fuel prices as a result of the Russian invasion of Ukraine on February 24, 2022, the AFCA initiated an investigation into the Austrian market for fuels pursuant to Section 2 (1) 3 WettbG on March 21, 2022 in response to an increasing number of submissions and complaints. Such an investigation of a market may be initiated by the AFCA if circumstances indicate that competition in the relevant economic sector is restricted or distorted.

14. The sector inquiry and its results are described in more detail in the contribution to the OECD Round table on competition in energy markets. Therefore, this contribution only briefly summarises the background and results.

15. The following questions were investigated:

1. What is the reason for the drastic price increases at the gas stations since the beginning of the Russian attack on Ukraine?
2. How have margins changed at the various levels of the value chain?
3. Has there been a decoupling of fuel prices from crude oil prices?
4. Are there any indications from the price data that point to a decline in competition at both levels: service stations and refinery?

https://www.bundeskanzleramt.gv.at/dam/jcr:20e801fd-7544-41a4-8cf5-c9d389fb470b/22_21_beilage_nb.pdf. (only available in German)

16. The AFCA limited itself to two stages of the value chain: refining crude oil and distributing vehicle fuels (diesel and gasoline) for small customers. After publishing a preliminary version of the report at the beginning of July 2022, the AFCA submitted the final report on August 22, 2022.

17. The results of the AFCA's sector inquiry show that the majority of the price increase at service stations is attributable to higher international price quotations for diesel and gasoline. At the level of service stations, there are indications of substantially increased gross margins only for March 2022, which, however, virtually disappear in the following months. The study on the fuel market presented by the UK Competition and Markets Authority (CMA) on July 8, 2022 came to similar conclusions to those of the AFCA in its calculation of gross margins.⁴ The lack of anomalies in price and gross margin developments at the service station level suggests that a reduction in competition between service stations does not appear to be the cause of the rise in service station prices. After a period of uncertainty in March 2022, international price quotations and service station prices (excl. VAT and petroleum revenue tax) have largely moved in parallel in subsequent months, albeit with greater volatility than before the start of the war.

18. At the same time, since the start of the war in Ukraine, significantly higher profit margins (i.e., gross margins less operating costs) have been found at the oil companies' refineries. In summary, the data suggest that the profitability of European refineries has increased significantly since the beginning of the war. The reason for this increase is a decoupling of international price quotations, which are used as reference prices in supply contracts, from crude oil prices.

19. The analyses of the price and cost data did however not reveal any direct indications of price fixing or abuse of market power, either at the level of the service stations or at the level of the refineries. International price quotations are used worldwide as reference prices in supply contracts. These can explain the development of service station prices (excl. VAT and petroleum revenue tax) relatively well after a short phase of uncertainty in March 2022, even if the difference between service station prices and international price quotations shows greater volatility after the start of the war than before. In addition, there are no peculiarities in price developments or developments in gross margins between the various subgroups in the totality of all Austrian service stations that would suggest a more in-depth investigation beyond the sectoral inquiry.

20. The issue of international price quotations at the level of oil companies goes beyond the national level.

21. With the final report, the AFCA was and is able to provide the government, parliament and the general public with facts supported by data to enable an evidence-based discussion. Due to the continuing tense situation on international commodity and energy markets, more in-depth analyses and the facts derived from them are indispensable for appropriate economic policy measures.

2.3. Ongoing Investigations into the Wood Pellets Market

22. In the wake of the energy crisis in Europe triggered by the Ukraine war, prices for wood and pellets have also risen sharply. Observing sharp price increases and identical prices among some wood pellets companies, the AFCA started an investigation into a cartel in wood pellets to see whether the market is further distorted by collusion.

⁴ See Fuel Road Review by the CMA of July 8, 2022: <https://www.gov.uk/government/publications/road-fuel-review/road-fuel-review>

23. Wood pellets are used as a form of biogenic fuel. They are a necessary part of Austria's energy supply, with 4% of all Austrian households using pellets for heating. In 2021, 1.6 million tonnes of pellets were produced in Austria, 1.2 million tonnes of which were used in Austria. According to Statistics Austria, there has been a slight decline in pellet exports in 2022 compared with 2021, with a minimally decline in imports. Pellets from Russia or Ukraine make up only 1% of all Austrian imports.

3. Conclusion

24. After many years of low inflation, the European Union and also Austria are increasingly facing a stronger inflation trend. In its latest flash estimate, Statistics Austria expects an inflation rate of 10.5% for September 2022, which means that inflation in Austria will reach its highest level in almost 70 years. With such distortion to prices, competition policy also faces a veil of inflation when enforcing the competition principle.

25. The Austrian submission shall show that while this new environment raises challenging new questions, the toolbox of modern competition policies allows authorities to address these problems in different ways and at different stages. Let it be a sector inquiry to address suspicions on a macroeconomic level as shown by the published sector inquiry fuel market, cartel enforcement for concrete suspicions as shown by investigations into the wood pellets market or competition advocacy as shown in the participation in the expert groups for ensuring the competition principle in proposed measures.