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

Competition and Inflation – Note by France

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

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Introduction

1. In France, the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (the “DGCCRF”) and the *Autorité de la concurrence* ensure the correct functioning of competition in the markets. The actions implemented in the area of competition policy, including controls on anticompetitive practices and merger control, help to promote innovation and ensure diversity of supply and low prices for consumers.

2. Competition law can act on price formation mechanisms through its three main functions. The ban on anticompetitive agreements opposes, first of all, concerted action between companies with the object or effect of restricting competition, particularly with regard to prices. The prohibition of the abuse of a dominant position, for its part, does not unconditionally proscribe market power but rather the abuse of such power through exploitative or exclusionary conduct that may have an effect on prices. Lastly, merger control aims to prevent the creation of such market positions. All these provisions help to free the market from barriers that limit or eliminate competition, particularly on price.

3. Inflation, which refers to the rise in general pricing levels, can have causes both inside and outside the economy. The recent rise in inflation is both circumstantial (reopening after the Covid-19 pandemic, war in Ukraine) and structural (increase in energy prices), as climate change can have an impact on both cyclical inflation (due to some of its manifestations) and structural inflation (long-term trend in the evolution of certain costs) and concerns all countries around the world.

4. The main tool for fighting inflation is monetary policy, which relies on steering interest rates and the quantity of money. For the eurozone, it is decided and implemented by the European Central Bank (ECB), whose objective is to ensure price stability, which it defines as inflation close to 2% per year in the medium term.

5. Budgetary policy and supply-side policies, including competition policy, can also have an impact on inflation, even if this is not their primary objective. The current inflationary context and the resulting threats to economic prospects and purchasing power have rekindled the debate on the role that these policies can play.

6. Consequently, even if competition policy is not, as such, a tool for fighting inflation, it can nevertheless contribute to it, alongside other public policies.

1. How does the current inflationary crisis manifest? What are its root causes?

7. The last two years have been marked by the return of inflation to historically high levels. This finding can be observed at the global, European and French levels, with variations according to territories and socio-professional categories (according to the ECB, the inflation experienced by the 20% of households in the eurozone with the lowest income is currently 2% higher per year than that of the 20% with the highest income).¹

¹ The annual inflation experienced by the 20% of households with the lowest incomes in the eurozone is now 2% higher than that of the 20% of households with the highest income (https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202207_04~a89ec1a6fe.en.html).

8. After a steady increase in inflation from the beginning of 2021, it stabilised at very high levels in the summer of 2022². In the OECD countries, year-on-year inflation averaged 10.3% in August 2022, following rates of 10.2% in July and 10.3% in June³. In August 2022, inflation in the eurozone stood at 9.1%.

9. These particularly high figures cover more contrasting situations depending on the country. In France, inflation in August 2022 was contained at 5.9%, down to 5.6% in September 2022⁴. According to OECD figures for August 2022, France was the 5th least inflationary country in general, 8th for food and 12th for energy. In all three cases, France is below the average for the G7, the OECD and the eurozone⁵.

10. The main causes of this price surge are well known: the imbalance between production capacities and the high level of demand after the lockdowns caused by the Covid-19 pandemic, plus a significant increase in the cost of inputs - energy and food raw materials - since the start of the war in Ukraine, which is gradually spreading to the whole economy⁶.

11. However, the determinants of inflation are not identical in all countries. In the United States, inflation is also being driven by the dynamism of the labour market and wage increases, which are more contained in the eurozone⁷.

2. What is the nature of the links between competition and inflation? Do these links differ in the short and long term?

12. In its 1971 recommendation, the OECD set out several immediate and long-term measures that member countries should follow in the area of competition policy, recognising that "effective competition policy is an important factor in achieving optimal economic growth and price stability [...]"⁸

13. Competition is therefore essential to keep prices low and preserve consumer purchasing power. Increased competition in product markets leads to lower prices through downward pressure on profit margins and costs⁹.

14. Temporality is a major factor in understanding the nature of the links between competition and inflation. It is indeed necessary to differentiate between the impact of

² <https://www.oecd.org/sdd/prices-ppp/statistical-insights-why-is-inflation-so-high-now-in-the-largest-oecd-economies-a-statistical-analysis.htm>

³ <https://www.oecd.org/sdd/prices-ppp/consumer-prices-oecd-updated-4-october-2022.htm>

⁴ <https://www.insee.fr/en/statistiques/6544105>

⁵ <https://www.oecd.org/sdd/prices-ppp/consumer-prices-oecd-updated-4-october-2022.htm>

⁶ <https://www.insee.fr/en/statistiques/6540821?sommaire=6540838>, p. 5.

⁷ Ibid

⁸ OECD, *Recommendation of the Council concerning Action against Inflation in the Field of Competition Policy*, OECD/LEGAL/0097.

⁹ Paul Cavelaars, *Does Competition Enhancement Have Permanent Inflation Effects?*, Kyklos, 2003, pp. 69-94.

3. Do periods of high inflation present particular risks to competition of which the authorities should be aware?

21. Periods of high inflation disrupt the structure of the market and affect pricing clarity.
22. Periods of high inflation can lead to the creation of detrimental price competition phenomena.
23. On the one hand, since price increases are commonplace in a period of high inflation, a monopoly or even an oligopoly may have an incentive to use its market power to increase or maintain its income. In a context of high inflation, companies may be tempted to collude with their competitors in a "*crisis cartel*" to pass on price increases to their customers together. These cartels artificially increase prices and risk delaying crisis recovery¹⁷.
24. On the other hand, companies operating in competitive markets may also seek to take advantage of the period of high inflation to marginally raise their prices in order to increase their profits. They have an even greater incentive to take advantage of general price increases since the attention of competition authorities is normally less focused on competitive markets.
25. Besides, an inflationary environment may increase the risk of anticompetitive practices when the market is characterised by a certain degree of price transparency. In such a situation, companies may have an incentive to practise "conscious parallelism" that is harmful to consumers¹⁸. This parallelism may concern immediate price increases or announcements of future price increases ("price signalling"). In markets whose structure is likely to favour anticompetitive coordination, competition authorities must therefore step up their vigilance over exchanges of information on prices between companies.

4. To what extent should competition policy be considered an anti-inflationary tool?

26. The contribution of competition policy to the fight against inflation is twofold: it helps to combat anticompetitive practices and it organises a pro-competitive market. Competition law intervenes primarily at the microeconomic level, insofar as it regulates the behaviour of individual economic stakeholders, namely companies. Nevertheless, its implementation is a macroeconomic issue, for three reasons: first, because the cumulative effect of the anticompetitive practices that this law makes it possible to combat can ultimately have a macroeconomic impact, and second, because it affects the structure of the market (merger control). In addition, competition policy includes a component relating to the organisation of markets, under which it leads to the implementation of pro-competitive methods whose stakes may have a macroeconomic dimension.
27. With regard to the fight against anticompetitive practices, by dismantling cartels, sanctioning vertical restrictions of competition that have a negative impact on the market, as well as abuses of dominant positions, competition law makes it possible to combat excessive incomes and, thus, restore purchasing power to consumers.

¹⁷ Emmanuel Combe, "*Vous avez dit 'cartels de crise' ?*", Les Echos, 17 June 2022.

¹⁸ OECD, OECD Competition Law and Policy Review, Volume 5, No. 1, "*Price Transparency*", 2003.

28. As an example, following indications transmitted by the DGCCRF, in 2018 the *Autorité de la concurrence* fined six household appliance manufacturers, among the largest in the sector, €189 million for colluding on price increases¹⁹. In so doing, competition law contributes directly to the protection of consumer welfare.

29. All the decision-making practice relating to the implementation of the ban on directly or indirectly imposing a minimum price on the resale price of a product is also in line with the protection of consumer purchasing power²⁰.

30. The fight against abuses of a dominant position also contributes to the protection of consumer purchasing power, whether by penalising exclusionary abuse (which may take the form of discriminatory pricing practices²¹) or exploitative abuse. This action can also help to curb behaviour that burdens the government's accounts and, indirectly, the taxpayer. Between 2013 and 2020, the *Autorité de la concurrence* issued four decisions sanctioning the behaviour of pharmaceutical laboratories that had hindered the market entry of generics of their originator medicinal products, in particular through disparaging practices²².

31. Competition policy also affects the pro-competitive organisation of the market.

32. On the one hand, merger control ensures that the competitive structure of markets is preserved by providing an obligation of prior control for all acquisition and merger projects over a certain size. It therefore ensures upstream that these transactions do not reduce competition, and makes the authorisation of transactions raising competition concerns conditional on the implementation of appropriate solutions. Studies have shown that during periods of high inflation, increased concentration in the economy amplifies the transmission of current cost shocks from supply shortages and labour market strains²³.

33. The role of competition policy is also to guide the government in promoting the principles of competition for the benefit of consumers. In its advisory capacity, the *Autorité de la concurrence* has recommended numerous reforms aimed at freeing up sources of innovation and growth and increasing the purchasing power of the French. By way of illustration, in 2014 the *Autorité* advocated the greater opening of the coach market²⁴. This opinion convinced the government to carry out a reform that, without committing public resources, allowed consumers to use a practical and economical mode of transport, under the control of an independent sector-specific regulator²⁵. The advisory role also enables the *Autorité de la concurrence* to provide information to the government with a view to adopting measures to respond to crisis situations, particularly inflationary ones. This is the case, for example, with the opinion issued in February 2022 on the temporary modification

¹⁹ Decision 18-D-24.

²⁰ Articles [L. 442-6](#) and [L. 420-1 of the French Commercial Code \(Code de commerce\)](#). For a recent case of the application of Article L. 420-1 to a resale price maintenance practice, see for example Decision 21-D-26 of 8 November 2021 regarding practices implemented within the distribution network of Mobotix branded products.

²¹ CJEU, 19 April 2018, MEO, [C-525/16](#).

²² Decisions 13-D-11, 13-D-21, 17-D-25 and 20-D-11.

²³ Bräuning, Falk, José L. Fillat, and Gustavo Joaquim. 2022. ["Cost-Price Relationships in a Concentrated Economy"](#). Federal Reserve Bank of Boston Current Policy Perspectives. 23 May 2002

²⁴ Opinion 14-A-05 of 27 February 2014 on the competitive operation of the market for scheduled interregional transport by coach.

²⁵ Law 2015-990 of 6 August 2015 for Growth, Activity and Equal Economic Opportunities.

of the regulated access mechanism for historical nuclear electricity ("ARHEN")²⁶. The *Autorité* recommended strengthening the control framework to ensure that suppliers pass on the benefits of these competitively priced volumes to all French electricity consumers, particularly electro-intensive companies and the most vulnerable households.

34. However, although competition policy has an impact on the price point and can therefore contribute to the fight against inflation, it cannot be considered an anti-inflationary instrument. Competition policy cannot depend on the economic situation at the risk of depending on the position of the economy in the economic cycle (more flexible in times of recession - to increase inflation - and more severe in times of expansion). In any case, this responsibility lies with the ECB.

5. What does a period of high inflation mean for competition authorities? Should competition authorities focus on sectors with high inflation?

35. The current period of high inflation requires increased vigilance on the part of national competition authorities with regard to the risks of anticompetitive behaviour mentioned above (see III).

36. In response to the exceptional inflationary crisis, the DGCCRF has set up a single point of contact enabling professionals, via their federations, to report anomalies in price formation, which may lead to investigations in the event of suspected anticompetitive behaviour. In addition, the purchasing power dimension has been integrated as a priority focus of its National Investigation Programme (PNE for "*programme national d'enquêtes*"), which will soon be made public.

37. In its roadmap for the period 2022-2023, the *Autorité de la concurrence* has made the preservation of purchasing power a priority area of action²⁷, whether in its litigation, advisory or merger control capacities. Within this framework, special attention is paid to particularly affected sectors such as energy, food and public procurement.

²⁶ Opinion 22-A-03 of 25 February 2022 on the draft decree by the French Administrative Supreme Court in application of Article L. 336-10 of the Energy Code (Code de l'énergie) and instituting a complementary delivery period following the exceptional increase in the overall maximum volume of historical nuclear electricity that can be divested, as well as two draft regulations.

²⁷ <https://www.autoritedelaconcurrence.fr/fr/publications/464>