

Unclassified

English - Or. English

3 November 2022

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

Competition and Inflation – Note by Indonesia

30 November 2022

This document reproduces a written contribution from Indonesia 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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Indonesia

1. Inflation in Indonesia

1. As a result of the Covid-19 pandemic and the lockdown to contain it, the world economy has experienced high inflation which erodes people's purchasing power and causes global concern. Indonesia's inflation rate in the 2022 calendar year (January–August) is 3.63 percent and the year-on-year inflation rate (August 2022 to August 2021) is 4.69 percent (Statistic Bureau, 2022)¹. In general, the inflation rate in Indonesia is better than the world inflation rate of 8.8%, the inflation rate of developing countries of 9.9%, and the inflation rate of developed countries of 7.2% (IMF, 2022)². Although Indonesia's condition is better than the global inflation rate, inflationary pressures in the future are predicted to increase due to several factors such as increased demand in general after the pandemic subsides, volatility of global food conditions, the increase of subsidized and non-subsidized fuel prices and additional costs for air transport fuel.

2. Various discussions among economists have concluded the relationship between inflation and competition. In times of crisis, a competitive market, and strong competition law enforcement have an important role. In the long run, higher competition in the product market will reduce the inflation rate (European Central Bank, 2005)³. Others argue that competition is the key to keeping prices low for consumers. High competition in the product market leads to lower prices through pressure on profit margins and costs. This implies that competition can lower prices and contribute to containing inflation (Autoridada de Concorrenca, 2022)⁴.

2. Inflation and Competition: The Role of Indonesia Competition Commission (ICC/KPPU)

3. Inflation is one of the economic conditions that has become the the Commission's concern. The relationship between competition and inflation has long been discussed by experts. The competition policy itself is not intended to address the rapid increase in inflation, nor is it that market powers are the cause of the current inflationary trend. Market power is the ability to increase prices, but it does not mean the ability to increase prices in different sectors of the economic system. However, both inflation and lack of business competition lead to price increases, and a more competitive economy can affect macroeconomic policies and inflation dynamics.

4. In times of crisis, competitive markets, and strong competition law enforcement have an important role, where competition encourages the creation of the following conditions:

¹ Central Statistics Bureau of Indonesia Release. 1 September 2022.

² Inflation rate, average consumer prices. International Monetary Fund, 2022.

³ Working Paper Series No. 453/March 2005. European Central Bank.

⁴ Competition and Purchasing Power in Times of Inflation. Autoridade da Concorrenca, August 2022.

1. Competition keeps prices low for consumers, through downward pressure on profit margins and costs⁵. This implies that business competition can reduce prices and contribute to efforts to restrain inflation.
 2. The competition encourages the economy to adapt more swiftly to unanticipated shocks⁶, because strong competition encourages companies to be able to change prices more frequently in response to competitive pressures, which in turn can reduce the time needed for companies to be able to return to the level prior to the shock.
 3. Competition can contribute to reaching a more sustainable economy. Competition forces companies to compete more fiercely with each other thereby benefiting consumers with lower prices, better quality, and greater variety. Thus, reforms that enhance competition in the labor and product markets might reduce the level of price stickiness and help stimulus or stabilization policies to be more effective⁷.
5. So far, ICC has conducted various studies and discussions related to inflation issues, both at the head office and at regional offices. Examples of studies that related to inflation are Study on The Role of Business Competition in the Perspective of Consumer Welfare, Inflation, and Economic Growth in 2010, as well the Study of Commodities Causing Inflation in Central Java Province in 2022.
6. The high impact of inflation on people's welfare has brought this issue to the attention of the public. During high inflation in commodities that affect the livelihoods of many people, such as food, fuel, etc., the Commission face high pressure from the public who wants us to take immediate action to reduce prices. In the latest case, there is strong public pressure through a petition from a consumer protection foundation signed by 14,000 people asking the Commission to immediately intervene to overcome the high price of cooking oil. In such condition, ICC still needs to conduct thorough research according to its main tasks and functions to understand the cause of price increase and whether the cause is business practices which are under our authority.
7. The importance of handling inflation encourages us to carry out various activities such as price monitoring, investigation of competition cases, submission of recommendation letters to the Government, and various other advocacy activities. Price monitoring is a routine activity carried out by the Commission, which focused on industries with a high concentration ratio and affects the lives of the public, such as the food, energy, pharmaceutical, etc. industries.
8. Price monitoring is also carried out in collaboration with central and regional government institutions. So far there have been 10 MoUs with the Regional Inflation Control Team. In addition, ICC is also part of a team formed by the Central Government to monitor inflation in various sectors. The teams are as follows:
- The National Interest Consideration Task Force led by the Ministry of Trade;

⁵ Duca, J. V., & Van Hoose Jr, D. D. (2000). "Has greater competition restrained US inflation?". *Southern Economic Journal*, 66(3), 729-741; Cavelaars, P. (2003) "Does competition enhancement have permanent inflation effects?"

⁶ Genakos and Pagliero, "Competition and Pass-Through: Evidence from Isolated Markets" *American Economic Journal: Applied Economics* (Forthcoming)

⁷ OECD, Recommendation of the Council concerning Action against Inflation in the Field of Competition Policy, [OECD/LEGAL/0097](#). 17 See, e.g., Alvarez, L

- The Tariff Task Force led by the Fiscal Policy Agency of the Ministry of Finance;
 - National/Regional Inflation Control Task Force;
 - The National Police Task Force for Food Commodities; and
9. In these various teams, the Commission and related government institutions held a series of activities such as:
- National Coordination Meeting
 - Joint monitoring
 - Market Inspection
 - Regular surveys of the market, both by the Central and regional ICC
10. These activities, aim to collect up-to-date data, both general daily price data and prices for specific brands/commodities in specific time and certain areas that require further observation by the Commission. If price monitoring detects a supply shortage and/or significant price increase, ICC will conduct further examination to understand the cause. Competition related causes will lead to investigation process and or policy analysis.
11. The cases of business competition in the inflationary period that have been handled by the Commission are generally in the food sector, such as the case of the imported beef cartel, the chicken meat cartel, and the garlic import cartel. For 2022 itself, the Commission is conducting an examination related to the cooking oil cartel, which is currently in the process of being investigated.
12. An example of a case that has been handled by ICC is the case of cartel in garlic importation, namely the Decision Number 05/ICC-I/2013. The object of the case is the importation of garlic in Indonesia for the period of November 2012 to February 2013, with 19 garlic importing companies and 3 government institutions being reported. From mid-2012 to mid-2013, there was a significant increase in the price of garlic in Indonesia, although there was no increase in world garlic prices. The majority of garlic supply in Indonesia is met through imports because garlic is not suitable for the tropical climate so Indonesia cannot fully meet the domestic garlic demands. Importing policy is regulated through the Minister of Agriculture Regulation Number 60/2012 concerning Recommendations for Horticulture Import Permits. Furthermore, the Import Approval Letter (IAL) is issued by the Directorate General of Foreign Trade, Ministry of Trade.
13. ICC's investigation found that importing companies that have IAL are affiliated companies and jointly control 56.68% (fifty-six point sixty-eight percent) or 23,518,018 kg of garlic import quota. We also found that the company did not import according to the schedule set by the Government and mutually arranged the supply of garlic into the country from November 2012 – February 2013 to regulate the price.
14. In this case, the Commission decided that there had been a violation of Article 19 letter c of Law Number 5 of 1999 in which business actors were prohibited from carrying out one or more activities either alone or with other business actors which could result in monopolistic practices and or unfair business competition. in the form of c. limit the circulation and or sale of goods and or services in the relevant market. In addition, we found that there was a conspiracy between the incumbent company and government officials which caused new importing companies to be unable to obtain import quota permits so that the market was still controlled by the incumbent.
15. Another example of a case related to inflation is the case of beef imports. In 2013 there was a significant increase in beef prices in Indonesia. The beef supply in Indonesia is

fulfilled with local and imported meat. To suppress domestic prices, the Government issued the Decree of the Minister of Trade Number: 669/M-DAG/KEP/7/2013 concerning the Stabilization of Beef Prices, which decided to increase the supply of cattle by importing scheme carried out in stages to stabilize the beef prices. However, this policy was not able to suppress meat prices. With these conditions and considering the concentrated market structure, ICC conducted further examination.

16. The investigation found that: there is affiliation among beef importers in which the 18 large companies factually only consist of 9 individual companies. Further investigation showed that there are only 5 controlling companies. As a result, even though the government issues recommendation permits to around 50 companies every year, the market share is still controlled by a handful of corporations

17. Based on our investigation, the high price of beef, is due to activities to regulate supply among the reported companies, by not realizing the quota set by the government. ICC also found that there are arrangements facilitated by the association regarding the submission of import quotas and sales that have an impact on unreasonable price increases that are detrimental to the interests of consumers.

18. Based on this behavior, the Commission decided that the reported party violated Article 11 of Law no. 5 of 1999 states: "Business actors are prohibited from entering into agreements, with their competing business actors, which intend to influence prices by regulating the production and or marketing of goods and or services, which may result in monopolistic practices and or unfair business competition, as well as Article 19 letter c of Law Number 5 of 1999 states: "Business actors are prohibited from carrying out one or more activities, either alone or with other business actors, which may result in monopolistic practices and or unfair business competition in the form of c. limit the circulation and or sale of goods and or services in the relevant market."

19. In times of inflation, to avoid supply shortages or sharply rising prices, the Government tends to establish policies aim at protecting domestic consumers and producers, through policies that regulate supply (for example through import quota policies or domestic market obligations) and prices (e.g. through ceiling price or floor price policy). However, this policy can pose a risk to business competition, especially in high concentration industry (where there are only few importers or suppliers). A ceiling price policy that is too far from production costs can encourage business actors to collude to set the maximum price possible. Meanwhile, if it is too low, it can cause the company to lose and exit the market and cannot attract new players to enter the market.

20. Price and supply policies can create opportunities for unfair business competition, for example, collusion to divide import quotas between importers, agreements to increase prices as much as possible to approach ceiling prices, etc. Regarding policies that may not align with competition principles, the Commission is authorized to issue policy recommendations to the regional and central government. For example, in the case of beef importation, ICC submits recommendations to several government institutions, as follows:

- The Ministry of Trade to determine the policy of granting import quota approval for 1 (one) year, to guarantee the supply.
- The Ministry of Trade in granting quotas, to pay attention to the existence of affiliation among importers to avoid unfair business competition.

21. In the case of importing garlic, ICC conveyed a recommendation that the Government simplifies the garlic import procedure. In addition, the Commission recommended that the Government supervises and records the realization of imports down to distribution at the retail level so that there is no delay in approval process, to prevent

shortages due to import delays, ICC also recommended the Government to review the policy of protecting the domestic garlic industry, to not cause harm to consumers.

22. The problem faced by the Commission regarding policy recommendation is that it does not legally binding, thus it may be implemented or not. Nevertheless, with the strengthening of ICC's institutional position and active contribution so far, we have been increasingly involved in policy formulation in which the Commission provides its views regarding the impact of policies on Indonesia's competition climate. The role of the Commission is getting stronger, one of which is shown by the involvement of ICC in the task force on food commodities since 2017. In this task force, apart from being involved in monitoring activities, ICC also provides input to the Government's policy plans in the food industry in Indonesia, especially related to price and supply arrangements for subsidized products and services.

23. However, even though we have handled cases related to inflation, the Commission does not have a mechanism to adjust the number of fines or the filing threshold in an inflationary condition. ICC's fines and compensation are regulated through Government Regulation Number 44 of 2021 concerning the Implementation of Prohibition of Monopolistic Practices and Unfair Business Competition, which is stated in :

Article 12

(1) Administrative actions in the form of fines as referred to in Article 6 paragraph (2) letter g constitute market fines, and the Commission shall impose administrative measures in the form of fines based on the following provisions:

maximum of 50% (fifty percent) of the net profit obtained by the Business Actor in the relevant market, during the period during which the violation of the law occurred; or

maximum of 10% (ten percent) of the total sales in the relevant market, during the period of the violation of the law.

3. Conclusion

24. Based on the explanation above, we could conclude as follows:

- Indonesian inflation in 2022 is generally caused by increased demand after the pandemic subsides, international food price fluctuations due to the disruption of distribution chains, and rising fuel prices.
- Competition does not solve inflation in the short term and market powers are not the cause of the current inflation trend. However, business competition has an important role in restraining inflation, where the competition will suppress prices and benefit consumers, encourage the economy to better adapt to economic shocks, and help stimulus and stabilization policies become more effective.
- The competition authority has an important role in monitoring and controlling inflation in Indonesia. ICC actively monitors prices both individually or in a joint team with other government institutions, conducts investigations, and provides policy recommendations and advices to the Government in times of inflation.
- To protect domestic consumers and producers, the Government of Indonesia may establish policies that regulate supply and prices. Such policies can harm the competition climate. For this reason, ICC plays an active role in providing policy

recommendations and advices so that Government policies remain in line with the principles of fair business competition.

- In inflationary conditions, especially in industries with a high concentration level and regulated by the Government in terms of prices and supply, there are opportunities for business actors to practice unfair business competition, such as agreeing to increase prices as much as possible to approach the highest retail price set by the government or agreed to set the supply quota. ICC has handled cases under these conditions, for example, the case of the imported beef cartel and the case of the garlic import cartel.