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The Interaction between Competition and Democracy – Note by Costa Rica

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1. Introduction

1. In today's world, the intersection of democracy and competition has become a central element of public policy, acting as a determining factor for the development of inclusive, fair, and participatory societies. It is essential to start from the premise that the free interaction of economic agents under fair conditions is a fundamental pillar to prevent the concentration of economic power and, thus, to protect democracy.

2. In systems where a competitive market prevails, citizens can benefit from greater variety, low prices, and more equitable access to goods and services. Moreover, it prevents a small number of actors, whether companies or conglomerates, from accumulating such influence that they can interfere in political decisions, limiting the participation and choice of individuals.

3. This contribution aims to analyze how competition policies not only serve to protect consumer welfare but also act as an essential mechanism to sustain democratic principles in Costa Rica.

4. Through the modernization of its legal framework in November 2019, the Commission to Promote Competition (COPROCOM) plays a key role in maintaining a fair and balanced play in the markets, not only sanctioning anti-competitive practices but also contributing to reducing social inequality in the country.

5. The OECD's 2023 Economic Report on Costa Rica concludes that the country has experienced sustained growth over recent decades and has distinguished itself in Latin America for its social inclusion policies and commitment to sustainability. However, challenges persist that threaten market plurality and equal economic opportunity.¹

6. Monopolistic practices and market concentration in certain strategic sectors remain central concerns, as they negatively impact both consumer access to goods and services and competitive conditions for companies. In this context, a robust and effective competition policy is essential to promote a reallocation of resources to more efficient uses, which would contribute to greater allocative efficiency and thus greater country competitiveness, as well as to prevent the accumulation of economic power in a few actors from limiting democratic participation and citizens' access to information, innovation, and resources.

7. Thus, this contribution seeks to answer the following questions: How do competition policies contribute to democracy in Costa Rica? How does COPROCOM act to protect and foster a democratic economic environment? And, finally, what are the challenges and opportunities that Costa Rica faces in seeking a competition policy that not only protects consumers and efficiency in the markets but also strengthens democracy?

8. By analyzing these scenarios, we conclude with a critical reflection on COPROCOM's role in promoting a healthy and democratic economic environment, focusing on how its policies and actions improve consumer welfare and defend the democratic values essential for an equitable and sustainable society.

¹ OECD (2023), *OECD Economic Surveys: Costa Rica 2023*, OECD Publishing, Paris, <https://doi.org/10.1787/8e8171b0-en>, pp. 39-40.

2. A Healthy Democracy Goes Hand-in-Hand with the Promotion of Competition

9. In a rule of law, competition creates a dynamic where multiple market actors have the freedom to offer goods and services under similar conditions, where each of them has the right to access, innovate, and compete on equal terms.

10. On the other hand, democracy, in its broadest sense, is a system of government based on the participation of all citizens in the decision-making processes that affect their lives, protecting their rights and ensuring that no entity concentrates excessive power. Competition, in this context, allows for a better distribution of resources to their most efficient uses, leads to lower prices, and fosters innovation, quality, and access to market resources.

11. In a healthy democracy, the principles that govern the market must align with those that govern the political sphere, preventing the concentration of both economic and political power. Economic competition ensures that there are fair rules for economic agents regarding access to resources and opportunities, reducing the likelihood that companies with market power can control entire markets, thereby limiting options for consumers and distorting the competitive conditions for their competitors.

12. In this sense, competition promotes an efficient allocation of resources, ensuring that not only large actors but also small and medium-sized enterprises have opportunities for success. Furthermore, it facilitates greater economic inclusion by reducing barriers to entry and creating a conducive environment for entrepreneurship. This is particularly important in developing countries like Costa Rica, where micro and small businesses are essential for economic growth and job creation. In an environment where consumers have the freedom to choose, the market must respond to their needs, which reinforces their role as active participants in the economic system.

13. Economic concentration in markets can have an adverse effect on democracy, especially when large companies or conglomerates use their influence to sway political decision-making. This negative link between economic power and political power creates a significant risk of regulatory capture, where government policies favor the interests of a few at the expense of the common good and democratic participation. Thus, competition law acts as a counterbalance to excessive economic power, limiting the ability of large corporations to accumulate influence that could threaten democratic principles.

14. The independence of competition regulatory bodies, such as the Commission to Promote Competition (COPROCOM) in Costa Rica, is a fundamental pillar for sustaining both the rule of law and the integrity of democratic processes. The underlying reason is clear: a robust and independent COPROCOM, composed of technically sound and ethically steadfast commissioners, acts as a guardian of the law and protector of efficient, dynamic, and competitive markets. However, this independence is often threatened when short-term political interests seek to subject the competition authority to their particular agendas, undermining its ability to defend economic efficiency and social welfare.

15. In a strong democracy, the competition authority cannot and should not be instrumentalized as a political arm of the ruling government. Instead, it must operate with impartiality and under ethical standards that ensure its actions are guided exclusively by the rule of law, transparency, and the common good. The heads of any competition agency must not only possess solid technical and professional training specialized in the field, but above all, they must be committed to the principles of integrity, objectivity, ethics, accountability, transparency, honesty, and social responsibility. Any attempt to appoint individuals who lack this commitment and instead respond to the interests of political or

economic factions constitutes an act that subjugates the public interest to the whims of a biased and short-term agenda.

16. When a government tries to discipline the competition agency by cutting its budget as a means of pressure, what is truly undermined is not only the operability and effectiveness of an entity but also the rights of citizens and the balance of power in the market. This practice erodes the foundations of an economy with fair rules and limits the regulatory body's ability to investigate, sanction, and prevent anti-competitive conduct.

17. The consequences of these practices are profound and concerning. A competition authority subjected to governmental interests ceases to fulfill its role as a guarantor of efficient, competitive, and open markets, and instead becomes yet another mechanism of state control over the economy, with all the harmful potential that this implies. Furthermore, it erodes trust in democratic institutions and fosters an environment where economic decisions are subject to political fluctuations, rather than to the principles of objectivity, rationality, economic efficiency, innovation, and social welfare.

18. Therefore, ensuring an independent competition agency, sufficiently funded and operated by upright commissioners, is not only an act of defense of economic competition but also an essential safeguard for democracy. This independence allows the agency to act as an objective counterbalance, free from pressures, and committed to preserving the democratic order.

3. The Role of COPROCOM in Strengthening Economic Democracy in Costa Rica

19. By ensuring that the market operates efficiently and under conditions of effective competition, COPROCOM not only safeguards the interests of consumers and businesses but also ensures that democratic principles are reflected in the economic sphere. This work is essential in a context where competition acts as a counterbalance to concentrations of power that can undermine the plurality of voices and options in the market, thereby contributing to the strengthening of a country that is economically competitive, inclusive, and committed to reducing social inequality.

20. In addition to its regulatory functions, COPROCOM works to raise awareness among Costa Rican society about the importance of competition and the role of consumers in a free market. This includes training and outreach activities so that businesses, government entities, and consumers understand the significance of a competitive economy and the benefits it brings to economic democracy.

21. To achieve its objectives, COPROCOM employs a variety of instruments and mechanisms that allow it to identify, investigate, and sanction practices that threaten competition, detect barriers to entry, and prevent mergers that could harm the public interest. These instruments include both preventive and corrective measures, which have proven effective in preserving competitive conditions in the markets. For example, conducting investigations in key sectors of the national economy where anti-competitive practices are suspected.

22. Through these investigations, the agency gathers detailed information about the behavior of companies and the impact of their actions on the market, enabling it to detect irregularities and proceed with the corresponding sanctions. Recent examples include investigations in sectors such as rice, public procurement, and fresh flower cultivation.

23. COPROCOM also plays an active role in promoting competition in strategic markets for the Costa Rican economy. This includes recommendations for creating specific regulatory frameworks in sectors where there has historically been a concentration of power

and allocative inefficiencies, such as the sugar sector and bus line concessions. Opening and regulating these sectors considering the principles of economic competition would foster a more dynamic and productive environment, with direct benefits for consumers in terms of prices, quality, and options.

24. For example, the recent study of the sugar sector from August 8, 2024, identified a series of inefficiencies in resource allocation and the existence of harmful, inefficient regulation that is out of touch with current realities, resulting in low productivity in the sector, higher prices, and a lack of innovation compared to other producing countries.

25. Costa Rica shows low levels of productivity, attributable to a lack of competition and the monopolistic structure of the sector. Due to the lack of competition and the existence of a market controlled by a central actor, sugar prices are higher than in more competitive markets. This affects both final consumers and industries that use sugar as an input. The closed structure and lack of competition have also reduced incentives for innovation in the sector. This has resulted in lower investment in technologies that could improve efficiency or in diversification into products like ethanol, which have high growth potential and environmental benefits.

26. The study highlights that the structure of the sugar market in Costa Rica has a particularly negative impact on low-income consumers, who spend a larger proportion of their income on sugar purchases and are thus more affected by high prices. Recommendations from COPROCOM emphasize the need to amend the law that creates monopoly, allowing for the production and marketing of sugar and enabling market-determined pricing. Additionally, it is suggested to reduce import tariffs on sugar and eliminate measures such as anti-dumping and safeguards that protect the domestic market from international competition.

27. To improve competition in the alcohol market, it is recommended to eliminate the monopsony of the national liquor factory over domestically produced alcohol, allowing other actors to participate in this market as well.

28. By allowing other actors to enter the sugar and alcohol markets, the right to effective competition is upheld, a key feature of economic democracy. COPROCOM's proposal underscores the need for a system in which multiple companies can compete on equal terms, which fosters both economic diversity and freedom of choice for consumers and producers. In a closed economy or one subject to price distortions, consumers have little or no ability to influence prices, limiting their economic autonomy.

29. By liberating the production and marketing of sugar, consumers are empowered with lower and more competitive prices. This strengthening of consumer purchasing power and choice is a direct manifestation of democratic values, as it promotes the active participation of all citizens in the economy on more equitable terms.

30. A strong competition policy that limits the concentration of power in the hands of a few economic actors is crucial to protecting the plurality of voices in a democracy. When the market is competitive and allows for the coexistence of multiple companies of different sizes and characteristics that compete vigorously, the risk that these actors can impose their economic interests on political decisions is reduced, thereby maintaining the independence of public policies.

31. Moreover, competition ensures that the benefits of economic growth are distributed more equitably, creating a society with higher levels of well-being and social cohesion, where every citizen's voice matters in both the economic and political spheres.

4. Conclusions

32. Competition is essential for democracy, as it promotes an efficient allocation of resources and prevents the concentration of economic power that could distort the democratic balance. In countries like Costa Rica, where the economy and politics are closely interconnected, an effective competition policy can be a powerful tool for defending and strengthening democracy, ensuring that both the free market and the government serve the collective interest.