Beyond the financial crisis: the role of competition

Outline of presentation

Present situation

- After recession in 2009 move back to modest economic growth in 2010

- Remaining fragility of the financial system and lack of trust in stability: recent polls in the UK and France show a persistent lack of confidence in financial institutions and fear that the crisis can reoccur

- Massive Government interventions to provide emergency relief to the financial and corporate sector

- Within the MENA region, access to finance has become more difficult in particular for start-ups and innovative enterprises

Questions

- What can competition policy do to help manage the crisis and to move to sustainable recovery?
- Is competition policy and competition law enforcement in tune with Government relief measures?
- Do crisis and post-crisis strategies call for adjustment of the objectives and methods of competition law enforcement?
- What is the role of competition policy in the MENA region?
Definitions

-Competition policies in a broad sense are understood to include all strategies and policy measures designed to promote economic efficiency by strengthening the functioning of markets
-Competition law includes all measures designed to combat practices by market operators that restrain competition, in particular collusive behavior, abuses of dominant positions and anti-competitive mergers

Origins of the financial crisis

- combination of market and regulatory failures
  
  a) market failure
  - oligopolistic structure of the financial sector
  - perverse incentives for excessive risk taking
  - disconnect of finance and the real economy

  b) regulatory failures
  - large unregulated segments of the financial system
  - insufficient powers of detection and sanction
  - lack of transparency of risk and risk management systems
  - deficiencies in corporate governance (deficiency of internal controls and proper risk management, conflicts of interest, dysfunctional boards)

Main relief measures

- Bail outs: recapitalization and subsidies
- countercyclical investment programs
- state participations
- tolerance for mergers and distortions to competition
Competitive effects of relief programs

- higher levels of concentration
- shifting the balance between market competition and regulation
- resurgence of state capitalism
- public/private partnerships and investment programs to meet planetary challenges (climate change)

Role of competition in crisis and post-crisis policies

- Staying the course: no tolerance for cartel type behavior
- Resisting protectionist pressures
- Stepping up consumer protection policies
- Flexibility for restructuring and merger operations
- Exit strategies for state intervention (e.g., re-privatization of enterprises totally or partially nationalized during the crisis)
- Stronger advocacy role of competition authorities

Competition policy in the MENA region

- Few countries have modern competition laws
- Lack of experience with enforcement
- Insufficient interaction between competition and other economic policies
- Absence of competition in economic integration strategies

Tunisia as a model?

- Integration of competition with economic liberalization and competitiveness strategies
- Dual structure of competition authorities (Ministry and Council)
- An emerging advocacy role of competition authorities
- State-of-the-art legislation and peer reviews by international bodies
- A national competitiveness institute and an indicative process of economic planning and public/private sector co-operation
- Emerging competition culture.
Towards a MENA competition program?

- National studies and workshops
- Training of enforcement officials and judges
- Integration in curricula for higher education
- Exchange of experience at a regional level – creating a MENA forum for competition?
- Peer reviews of national legislation and policies
- Advice on the design of competition laws and agencies
- Twinning programs and institutional partnerships.