

Competition Distortions in India – Quarterly Dossier

Background & Rationale

Competition is a necessary tool to promote efficiency and innovation of the rival firms in the market which finally leads to greater productivity, economic growth and consumer welfare. Competition should not only be seen as a tool to promote economic growth but also as a key component in poverty reduction and achievement of social gains.

Competition in the market place can be distorted by anticompetitive practices of firms as well as government policies that result in anticompetitive outcomes that hinder the market process and unduly influence the ability of firms to compete fairly. While it is possible to challenge such firm practices through competition law enforcement, the anticompetitive dimensions of the many government policies, such as trade, procurement, price-fixing and others remain outside the purview of the competition law. These policies are largely pervasive because they are aimed at achieving some objectives that are either in the interest of the public, boost domestic industries, promote trade or found necessary steps to develop one sector over another.

Distortions caused by such government policies are the main obstacles to socio-economic growth especially for a developing country like India. Against this backdrop, it becomes necessary to understand different types of government policies that impact or are likely to impact the competition process as well as find ways to ensure that such policies are formulated in a manner that their anticompetitive outcomes are minimised as result of which, they are least competition restrictive.

Goal & Objectives

Given the background, CUTS has taken up the initiative to quarterly publish, “Competition Distortion Dossier”¹ that basically focuses upon the policy-induced competition distortions in India. This dossier lays emphasis

“Strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies”

Joseph Stiglitz

on how effective competition plays an important role in the development of countries and its importance in terms of country’s economic growth and in ensuring consumer welfare. The dossier looks at the interface of policy

issues which has an impact on competition in the economy/market.

The dossier provides suggestions on how to improve upon distortive policies by introducing reforms in various sectors. It also suggests interventions at various levels for harmonisation of government policies and regulations leading to economic benefits for the society at large.

The purpose is to flag issues to the layman as well as to policymakers and regulators, rather than be judgmental about them.

Activities & Output

Each edition of the dossier covers several interesting stories, a mix of good and bad. There are many instances of potential competition distortions caused by policies adopted by the government to save public sector enterprises at the cost of overlooking interest of the private sector. CUTS has always held the stand that such policy tools

¹ www.cuts-ccier.org/Competition_Distortions_India.htm

are not sustainable in the long run and have adverse effect on the economic development of the country. Also, they are quick-fixes that do not serve the goal of encouraging competitiveness in domestic industries by artificially insulating/shielding state-owned enterprises.

Instances of creation of entry barriers for private players and violation of competitive neutrality principle are also included in the dossier. In all such cases, public sector seems to be getting undue advantage out of government policies while interest of private players is kept on the backburner.

Apart from this, dossier also brings forth positive initiatives on the part of government such as allowing reforms in various sectors. Such steps definitely provide incentives to private companies to enter the market. Steps regarding de-regulating the existing tariff structure at major ports in the country could be treated as one of the examples where Shipping Ministry has shown proactiveness in order to revive financial position of the industry through initiating policy reforms. In absence of such reforms private companies generally show their disinterest in making any investment in the economy.

Expected Outcomes

1. Enhanced awareness and understanding of common man about competition-related issues.

2. Capacity building of policymakers by providing them information regarding various types of anticompetitive activities viz. violation of principle of competitive neutrality, abuse of dominant position, absence of level playing ground in various sectors, collusion, cartelisation etc., and its impact on the market. It would help them to adopt necessary measures required to eradicate competition distortive practices and infuse fair competition in the market.

“A market situation in which firms or sellers independently strive for the patronage of buyers in order to achieve a particular business objective e.g. profits, sales and/or market share”

OECD definition of Competition

3. Re-emphasising need to adopt a National Competition Policy (NCP) in India: CUTS has been involved in advocating with relevant policymakers for promoting the idea and benefits of having NCP in the country. Competition Distortion Dossier could be treated as one of the advocacy tools utilised by CUTS to push the agenda for adoption of a NCP for India.