

2nd PROJECT ADVISORY COMMITTEE (PAC)

MEETING REPORT

**NATIONAL COMPETITION POLICY
AND ECONOMIC GROWTH OF INDIA**

(ComPEG Project)

February 07, 2013



The second of the three Project Advisory Committee (PAC) meetings to span the one and a half year¹ project entitled “National Competition Policy and Economic Growth of India” (ComPEG project) was held at the CUTS Institute for Regulation & Competition (CIRC) in New Delhi, India on February 07, 2013. The meeting was attended by select PAC members, key researchers of the project, special invitees, who by virtue of their knowledge and understanding of competition and growth issues could add value to the project and CUTS representatives. The following is the brief proceeding of the meeting.

I. BACKGROUND

National Competition Policy and Economic Growth of India (ComPEG project) is a project being implemented by CUTS with support of the British High Commission (BHC). With the objective of carrying forward the “advocacy agenda” of the National Competition Policy (NCP) of India, the project will focus on three sectors, i.e. Pharmaceuticals, Electricity and Food and Agriculture Marketing, to identify the existing gaps against the touchstone of competition and measure the benefits of correcting the same in the entire Indian economy.

The rationale for selecting these sectors lies behind their significance to the Indian economy. Sectors, such as pharmaceuticals and infrastructure (electricity) are the backbone of an economy and a propeller of socio-economic growth. The Food & Agricultural Marketing sector, on the other hand, aside from being significant from the point of sustenance, is the base intermediate sector which has a significant linkage effect with all other sectors of economy.

The purpose of the 2nd PAC meeting was to review the progress of the research in three select sectors and map the direction of the research progress with the project objectives; and discuss, brainstorm and refine the research methodology in line with the term of references of the research part of the project. The further objective of the meeting was to seek experts’ opinion on the sector studies and the scope of the research.

II. PROCEEDINGS

The meeting started with an opening session followed by a session during which three sector study presentations were delivered: Aditya Bhattacharjea (Pharmaceutical), Sangeeta Singh (Electricity) and Anusree Paul (Agriculture and Marketing) on their respective research work methodology, results and progress so far. Each presentation was followed by floor interventions to discuss and brainstorm on issues.

¹ tentative

2.1 Opening Session

Pradeep S Mehta, Secretary General, CUTS International in his opening speech briefly spoke about the project and its scope. He mentioned that the purpose of the project is to identify the existing competition distortions due to policies, regulations, etc. and measure the benefits of correcting the same by carrying out competition impact assessment in three select sectors, i.e. Pharmaceuticals, Electricity and Food & Agricultural Marketing. He introduced the researchers who will be involved in sector studies: Sangeeta Singh, Nathan & Co. for Electricity, Aditya Bhattacharya, and Delhi School of Economics for Pharmaceutical and Anusree Paul for Food & Agricultural Marketing. He then introduced the chair of the meeting, and also the chairman of the PAC of the ComPEG, **Nitin Desai**, Chairman, Institute of Economic Growth. Towards the end, he thanked the BHC for supporting this project.

Andrew Jackson, Counsellor (Knowledge Economy) of the BHC, New Delhi emphasised on the importance of identification of relevant policies that would need to be amended towards the end of the research phase. He stressed on the point that the Embassy would be keen to discuss the way forward, i.e. advocacy part of the project, provided the research phase is concluded within the time frame, as discussed. He was happy to note the progress made in all the three sectors.

2.2. Presentation of the Sectoral Research Work

2.2.1 Measuring Benefits of Competition in Pharmaceuticals Sector

The presentation on the Pharmaceutical sector was delivered by Aditya Bhattacharjea, Professor, Delhi School of Economics and a PhD scholar Fiyanshu Sindhwani working with him on the study.

Bhattacharjea mentioned that the idea was to study and assess an entire range of policies, rules and regulations governing the pharmaceutical sector using the competition assessment checklist, which has been prepared by CUTS.

He explained the order and course of his study; the paper starts with importance of drug availability and pricing in India and the special features of the market for medicines. The study of evolution of the policy regime and an empirical analysis of the heterogeneous pharmaceutical market structure indicated that firms with the largest market share are the ones that charge the highest prices for their products, which is contrary to the expectations of the general economic theory. This is indicative of distortive market structure and function, which is further a competition concern. Through their drug price control research they found that government has been legally maintaining re-sale price. It was also pointed out that chemists/druggists have very strong cartels in operation at the national level. Bhattacharjea has also researched issues pertaining to foreign direct investment, mergers and intellectual property right issues spanning the sector. He presented the case of shutting down of few public sector undertakings on grounds of non-compliance with

General Manufacturing Practices (GMPs), a World Health Organisation bar for qualitative drugs, as a reverse competitive neutrality scenario.

In this regard, **Bibek Debroy**, Research Professor, Centre for Policy Research reacted that it is important to get a sense of the importance of GMP implementation and accountability of the resultant manufacturers being driven out of the pharmaceutical market because of this implementation; competition should not be excluded without adequate justification.

V K Mathur, Chairman, Inapex Limited advised to develop a practical working model for defining and identifying the optimum level of competition and number of players (chemists) in the market, etc; identifying the constraining forces in this regards, and finding solutions to these problems and then, CUTS as a disinterested party can present this model to the government.

Maulik Chokshi, Assistant Professor, Public Health Foundation of India commented that analysis of data on nine drugs might not be sufficient in reflecting the true picture of the drug market trends and the prevailing state of competition in it. To this, Bhattacharjea responded that data availability is a challenge and given that they have sufficient data for the mentioned nine drugs, thus the analysis is restricted to the said drugs.

Nitin Desai opined that numbers might not be the best scale for measuring the level and state of competition. He felt that it is important to understand the source of the policy impediments. This calls for a more granular approach, which, in turn, would also help identifying the exact state actors to be approached for advocacy to undertake competition reforms, i.e. to amend specific policies, rules, regulations that are impeding competition.

Pradeep S Mehta, Secretary General, CUTS International concluded that issues prevailing this sector need to be explained in the light of policy impediments to competition and the potential gains to be realised from the removal of these impediments need to be quantified, so as to flag the urgency and importance of the implementation of the NCP adequately to the regulators and policymakers.

2.2.2 Measuring Benefits of Competition in the Electricity Sector

The presentation was made by Sangeeta Singh, Principal Economist and Nandita Jain, Senior Economist from Nathan Associates.

The research paper starts out by how the electricity sector has opened up in line with India's liberalisation process, how certain acts and regulations have helped a wider private participation. A literature review of how recent years have seen a decline in the scope of regulatory regime across countries and how major industries have become a part of market discipline and delivered significant benefits to consumers in terms of choice, competitive rates and satisfaction from their use has been done.

Development of the electricity sector in the developed world and its transition to the market economy including that in Europe, France, Germany, North America, Canada, Australia, China, Japan, Russia has also been covered in the study. Singh mentioned that they have analysed the potential qualitative benefits to be realised from the incorporation of competition principles in various relevant policies concerning this sector as well as the practices involved in implementing these policies; analysis of the impact of regulation on competition in the electricity sector, especially the private players and consumers. The natural monopoly argument in the electricity sector has been discussed and suggestion for deregulation for the same has been suggested. As part of the study, she mentioned that they have undertaken a competition impact assessment of the electricity power supply chain process, i.e. competition investigation across the generation, transmission and distribution segments of electricity. They have so far concluded that unbundling of state electricity boards, open access: retail trade of electricity are some of the practices that have the potential to vastly improve the financial health and state of function of the sector. Key problems, such as subsidisation, tariff setting and non-revision have also been deduced as major challenges facing the progress of the electricity sector.

With regards to the issue of tariff setting and revision, **Ajay Shankar**, Member Secretary, National Manufacturing Competitiveness Council mentioned that the State Electricity Boards (SEBs) have been financially sick and the losses have been ballooning because the tariff over the years has not been allowed to reflect the true fuel costs and the rise in it, due to political reasons. He also spoke that issues of open-access, captive use and inducing competition through private sector participation have huge merit in terms of increasing efficiency and reducing costs; these have been included as provisions in Acts but successful and smooth implementation is yet to be achieved. He further said that distortional policies that aim to maximise prices in place of maximising profits put market players at competitive disadvantage.

Udai S Mehta, Associate Director, CUTS International pointed out that that the success of open access in Navi Mumbai, between Tata and Reliance power is an important case study and should be considered for the stakeholder survey. He added that it would be important to analyse the role of regulators in facilitating the implementation of open access. Further, it would be useful to also map the action taken by Reliance and Tata to adhere to open access obligations, as there have been cases where customers using power from Tata moved to Reliance, but were turned down by Reliance, as their overall consumption demand was not too high.

V S Ailawadi, Chief Mentor, Corporate & Regulatory Affairs, TATA Teleservices Limited pointed out that free electricity for agriculture is largely (approximately 40 percent electricity is diverted) responsible for the losses and it being a political economy issue, has remained unanalysed. He supported his case by quoting the example of Gujarat, a net exporter of electricity, which has adopted feeder segregation reform process for the

supply of electricity to the agriculture sector and a separate line to supply to commercial and household consumers. As regarding Nathan's conclusions and issues identified so far, Ailawadi suggested that tariff setting and non-revision should be combined with the issue of government monopoly over major inputs (coal) for the sector to do a comprehensive competition investigation.

Desai said that all sectors in India, especially power, have competition *for* markets but not competition *in* markets.

Bipul Chatterjee, Deputy Executive Director, CUTS International summarised the discussion with the argument that so far, '*what*' part of the issue has been addressed, the '*why*' (this has been caused/has been happening) part has to be researched and analysed in order to be able to decide '*how*' to solve the prevalent competition issues, and identify relevant stakeholders for advocacy.

2.2.3 Measuring Benefits of Competition in Food and Agricultural Marketing Sector

The Food and Agricultural Marketing Sector presentation was delivered by Anusree Paul, Professor, Symbiosis School of Economics, Pune.

In her presentation, she focused on the purpose, scope and the research methodology of the sector study. She mentioned that in order to study the pattern supply chain of the product/sector, understand the political and social interest of the stakeholders towards reform and understanding the cost structure of the supply chain (since cost related information will help undertaking a quantification of the potential benefits to be realised), survey would be conducted in select states (Maharashtra, Bihar and West Bengal). These states have been selected on the basis of their status in implementation of the Agricultural Produce Market Committee (APMC) Act and the level of tomato² production. Further, Paul spoke about the pilot survey conducted in Bethua market in Nadia district of West Bengal and mentioned that on paper (at the policy level), the agriculture marketing domain seems organised and orderly, but the ground reality is quite different. Agriculture being a state subject is quite diverse and a lot of disorganisation and informality existed in the Bethua market. Further, relevant stakeholders, such as traders were reluctant to share information. Towards, the end, she pointed out that total time span of the survey and the study could limit the depth of analysis required for this study.

Desai in this regard, commented that organised retailers should be included in the stakeholder list for interviews. As these retailers have time and again argued that they are ready to directly source from farmers but have been constrained by the system's organisation, and have instead dealt with *arthadars*. Thus, interviewing this section of stakeholders could shed light on the source of distortions in the governance structure of the agriculture marketing sector.

² The selected food item for analysis

Mehta concluded that to gain data for quantitative analysis of the benefits to be realised from incorporation of competition principles in the APMC acts.

III. CONCLUDING POINTS

- The study is going to deal with relevant policy related reforms in all the three sectors. Focus should be to point out key policy changes that are required to foster competition in three sectors
- Study of policy distortions as against anticompetitive practices
- The study will look into the feasibility and political economy aspect of policy concerns in each sector
- Electricity sector: '*what*' part of the issue has been addressed, the '*why*' (this has been caused/has been happening) part has to be researched and analysed in order to be able to decide '*how*' to solve the prevalent competition issues, and identify relevant stakeholders for advocacy