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DOES COMPETITION KILL OR CREATE JOBS?

Contribution from Mexico

-- SESSION I --

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Ms. Ania Thiemann, Global Relations Manager, OECD Competition Division
Tel: +33 1 45 24 98 87, Email: ania.thiemann@oecd.org

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LINKS AND DRIVERS BETWEEN COMPETITION AND EMPLOYMENT

– Mexico –

1. Introduction

1. Competition policy is one of the most important tools for achieving the objectives of economic policy. Under a competitive environment, resources are allocated to their most productive use, reducing input costs and enabling consumers to acquire lower-priced and better-quality products and services. When companies face more competition, there is an increase in efficiency, quality and innovation. Hence, productivity grows faster and consequently there is economic growth.

2. Notwithstanding this proven cycle, it is hard to determine whether competition policy has a direct impact on employment. In general, the level of employment can be affected by many factors and competition may be one of them.

3. In the case of Mexico, competition policy is a fundamental instrument of economic policy and ultimately an essential tool for boosting productiveness and growth in the economy. However, the Federal Economic Competition Law (FECL) is based on the principles of economic efficiency, therefore the Commission may not consider employment factors when analyzing a particular case (a merger, for example). The foregoing, does mean however, that these factors are not themselves relevant consequences of sound competition and thus an ultimate goal which may be conceived as such by the competition authority.

4. In that sense, the following contribution will describe the importance of competition for Mexican economic policy as a vehicle for achieving a productive and efficient environment that fosters the creation of tangible benefits for society, among which is a greater level of employment.

2. The importance of competition in Mexico's economic policy

5. More than 20 years have passed since competition policy was adopted in the Mexican legal system. Today, there is broad consensus regarding the benefits of competition policy and its importance to the country. This significance is recognized as a part of the current government's strategies to develop a competitive environment and consequently a favorable economic scenario, efforts that were translated in a structural reform in 2013 to boost the benefits of competition. As a result, competition policy was recognized as a vehicle for achieving ultimate economic goals such as greater innovation, sustained economic growth and therefore increased levels of employment.

2.1 *The National Development Plan 2013-2018*

6. Since the first days of the current administration, foundations for a new political, economic and social agreement were established with the objective of securing the country's democratic transition and boosting economic growth. This objective was translated into the National Development Plan (NDP), a document that governs the entire budget allocation and planning of the Federal Public Administration in

Mexico, outlines key public policy objectives, sets actions for their fulfilment and generates indicators for measuring progress.

7. The 2013-2018 NDP's¹ diagnosis found that negative productivity growth is one of the key factors limiting national development. On this basis, the NDP emphasized the importance of a *Prosperous Mexico* as one of the five National Goals for transforming the Mexican economy by making it more productive and competitive. This will be achieved, among other actions, by providing conditions for economic growth through regulation that allows sound competition between companies and the design of policies focused on generating innovation and growth in strategic sectors.

8. Furthermore, the NDP also sets out three cross-cutting strategies: democratizing productivity, achieving a closer and modern government, and implementing a gender perspective in all government programs. The aforementioned have the objective of defining the route to follow in order to achieve the NDP goals.

2.2 Democratizing Productivity

9. An increase in productivity must be the result of a joint effort between private and public sectors. Bearing this in mind and in addition to its five national goals, the NDP established the *Special Program to Democratize Productivity* (PDP) as one of its cross-cutting strategies.²

10. The PDP was created with the objective of coordinating government actions aimed at carrying out public policies that remove barriers that limit the productive potential of citizens and enterprises, encourage efficient use of productive resources among all players in the economy, and comprehensively analyze income policy and public expenditure strategies and government programs to induce formality.

11. In its diagnosis, the PDP found as one of the causes of the poor growth rate of the Mexican Economy the lack of competition in network industries (telecommunications, electricity and transport), which resulted in high prices for companies' strategic inputs, thus raising companies' operating costs and hindering proper factor allocation.

12. To address these matters, the third objective of the PDP is strengthening the environment in which businesses operate. Actions focused on achieving this include: i) promoting regulatory frameworks that embrace competition and market efficiency; and ii) supporting municipality and state efforts to foster competition in local markets.

13. As a way of further encouraging these actions, on May 6, 2015; the Federal Government published in the Federal Official Gazette the Decree issuing the *Law for Promoting the Sustained Increase of Productivity and Competitiveness of the National Economy*³. Among other objectives, the law seeks to implement a national policy for economic promotion, promote the creation of formal jobs and strengthening the internal market to boost a favorable business environment for the creation, operation and growth of a productive and competitive private sector.

¹ Available at: <http://pnd.gob.mx/> (In Spanish)

² Available at: http://dof.gob.mx/nota_detalle.php?codigo=5312422&fecha=30/08/2013. (in Spanish)

³ Available at: <http://www.diputados.gob.mx/LeyesBiblio/pdf/LIISPCEN.pdf> (In Spanish)

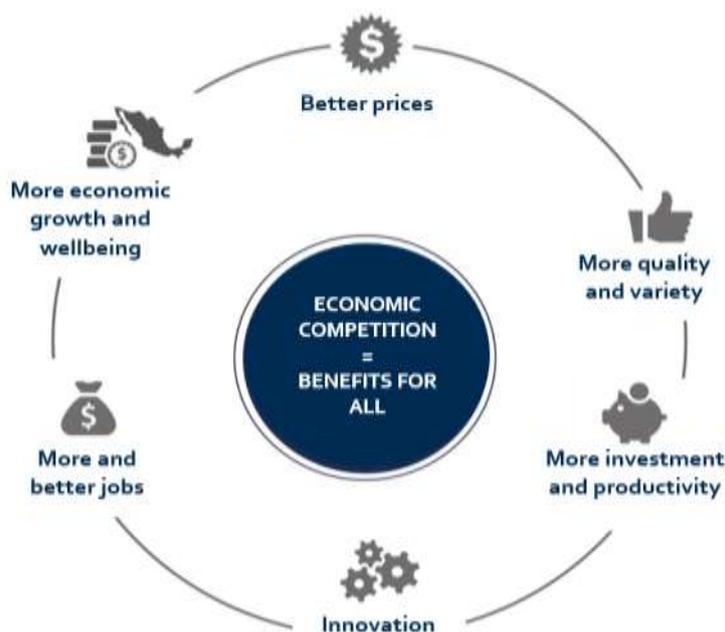
III. The role of COFECE in materializing national economic goals

14. Because more competitive markets result in higher productivity growth, policies focused on making markets work more competitively, such as enforcement of competition law and removal of regulations that hinder competition, will result in more economic growth and wellbeing.

15. Although it is true that the productivity gains caused by competition can generate layoffs as a consequence, this does not add more to unemployment in aggregate than any other technical progress.⁴ Furthermore, it might be true that competition may help to reallocated employment between firms towards more technologically advanced ones.

16. Guided by the NDP, the PDP and with evidence from other countries showing that implementing pro-competition reforms could contribute to economic growth, in 2013 the Mexican Congress approved a comprehensive economic reform that established the Federal Economic Competition Commission (COFECE) as an autonomous entity vested with new powers to ensure a favorable pro-competitive business environment. As an autonomous entity, COFECE has a commitment towards helping materialize the objectives of the government’s economic strategy.

17. As a result, the Commission is entrusted with safeguarding competition and free market access, contributing to consumer welfare and the efficient functioning of the markets. Through its work it seeks better conditions for consumers, greater output and better services and a “level playing field” for companies. This mission can be translated into a *virtuous cycle* in which competition creates benefits for all the society.



18. In response to this high responsibility, COFECE’s 2014-2017 Strategic Plan⁵ articulated the mission behind the agency’s work, its underlying values, its stated objectives and the strategic courses of

⁴ OECD (2014) *Factsheet on how competition policy affects macro-economic outcomes*. Available at: <http://www.oecd.org/daf/competition/2014-competition-factsheet-iv-en.pdf>

⁵ Available at https://www.cofece.mx/cofece/attachments/article/37/PE_2014-2017_act_2015.pdf. (In Spanish)

action that drive its day-to-day activities. Of the four key objectives, there is one specifically directed for economic growth; Objective III states that the Commission shall contribute to economic growth and to the benefit of society through boosting competition in the markets.

19. Accordingly, the Commission decided to establish a prioritization strategy in order to focus its work in key economic sectors. To define them, six criteria were established: i) economic growth, those that contribute in a greater extent to national Gross Domestic Product (GDP); ii) widespread consumption, those which have a greater demand among general population; iii) cross sectional impact, those where intermediate goods and services are produced; iv) lower income households, those that produce goods or services with considerable impact on families with low income; v) regulated sectors, those on which there are governmental regulations and/or practices that might create barriers to competition, and vi) risk of monopolistic behavior, characteristics and regulations in the market that could foster collusive agreements or abuse of dominance.

20. Based on these criteria, the Commission decided to analyze, in the short term, competition conditions in the financial sector and the agri-foods sector through the performance of comprehensive market studies. Furthermore, and derived from the recent energy reforms, the Commission added the energy sector to its priorities since increasing competition in its markets would contribute to boost the country's competitiveness.

21. Even though the enforcement of the FECL and competition advocacy help increase market efficiency, it is important that the impact of competition policy is reflected in society's welfare. This is why the Commission spends significant time wide spreading the benefits of competition so society can know how COFECE's work contributes to the improvement of economic growth.

IV. COFECE's work towards a competitive and productive Mexico

22. Competition authorities contribute to economic growth not only by enforcing the law but also through their advocacy activities with other policy-makers. To fulfill its constitutional mandate, as well as Objective III of its Strategic Plan, COFECE defined in its 2015 Annual Work Plan⁶ two specific actions to identify and understand the state of competition in relevant economic sectors and measure the impact of its interventions. These two actions are: i) monitoring and supervising competition conditions in the markets and ii) performing assessments to estimate, in monetary terms, the impact of the interventions that COFECE makes in the markets.

23. Parallel to these efforts and pursuant to the Constitutional Reform and the FECL, besides merger review and competition enforcement activities, a significant part of COFECE'S duties are to advocate free market access and competition by drafting non-binding opinions. Under Objective II of the Strategic Plan, COFECE seeks to promote regulatory frameworks and public policies that are favorable for economic competition in the markets; this is done by issuing opinions (either by request or *ex officio*) on draft regulations, programs and policies to ensure that these instruments are pro-competitive.

24. The above because restrictions on competition have been shown to reduce output and employment.

25. Thus, since 2013, COFECE works closely with the Federal Commission for Regulatory Improvement (COFEMER) to perform Regulatory Impact Analysis (RIA). Under this procedure, the Commission ponders whether draft regulations made by the Federal Public Administration have a negative

⁶ Annual Work Plan 2015, available at https://www.cofece.mx/cofece/phocadownload/Normateca/Informe/Programa_Anuual_de_Trabajo_2015.pdf. (In Spanish)

or positive effect in terms of economic competition. Hence, COFECE prevents regulation that could hinder competition conditions and stifle the economy's productivity and ultimately growth.

V. Conclusion

26. Although specific factors like employment might not be explicitly part of the Commission's day-to-day work, it is COFECE's mission to ensure a pro-competitive environment that fosters investment, productivity growth, innovation, more and better jobs and ultimately economic growth and greater wellbeing for all. In complying with this mandate, the Commission contributes to the national growth agenda by ensuring competitive conditions for consumers and business and thus promoting a better economic scenario in Mexico.

27. As noted by the Federal Government in the last State of the Nation Report⁷, with the new FECL there are more elements to detect anticompetitive behavior and in coordination with COFECE it is crucial to work in the detection of practices that create or raise barriers to competition for new companies entering markets. All of this with the objective of promoting the productive potential of companies and delivering consumers better quality goods and services at lower prices. This makes competition one of the most powerful drivers for the country's inclusive growth in the long run.

⁷ Available at <http://www.presidencia.gob.mx/tercerinforme/>