

CCS GUIDELINES ON COMPETITION IMPACT ASSESSMENT FOR GOVERNMENT AGENCIES

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1 INTRODUCTION

- 1.1 The mission of the Competition Commission of Singapore ('CCS') is to promote healthy competitive markets that will benefit the Singapore economy. Competition spurs businesses to be more efficient, innovative and responsive to consumer needs. This means more effective use of resources and greater productivity gains for the economy. The benefits are, in turn, cascaded to consumers, who will enjoy more choices, competitive prices and better products.
- 1.2 Established as a statutory board on 1 January 2005, the CCS administers and enforces the Competition Act (Chapter 50B) (the 'Act'). As the intent of the Act is to regulate the conduct of market players, it does not apply to the Government, any statutory body, or any person acting on their behalf.
- 1.3 However, government agencies are encouraged to take into account potential impact on competition in the policy-formulation process, as government policies can have a significant impact on competition. One of the CCS' functions is to bring about greater awareness and provide advice to government agencies on competition matters.
- 1.4 This set of guidelines is meant to assist government agencies in identifying and assessing the likely competitive impact of their proposed policies. It is written in a non-technical way and does not assume any specialized understanding of economics.
- 1.5 It is important that the CCS is able to provide inputs to government agencies on competition matters early on in the policy-formulation process. Government agencies which require guidance on specific competition matters are encouraged to contact the CCS. Queries can be directed to the general hotline: 1800-325 8282 or to the mailbox: ccs_feedback@ccs.gov.sg
- 1.6 The CCS' inputs will generally be limited to the competition assessment of the proposed policy and where possible, helping to identify ways to alleviate these competition concerns. The government agencies seeking inputs will then be able to weigh the CCS' advice on competition issues against any other relevant policy considerations in their policy-formulation process.

- 1.7 As policy formulation may be confidential, the CCS will not ask for information from, or consult with, private third parties. The relevance and usefulness of CCS' inputs will therefore depend critically on the currency and extent of the information provided by the requesting government agency. The provision of inputs by CCS will also not preclude the CCS from investigating activities in the related market in the event of a complaint, or if the CCS is of the view that it should initiate an investigation.

2 COMPETITION & THE COMPETITION IMPACT ASSESSMENT PROCESS

- 2.1. Competition normally refers to a process where two or more sellers¹ try to outdo each other in order to win a buyer's² business. This rivalry can take many forms, such as lowering prices, increasing product quality or choice. For example, sellers may compete to reduce the prices offered to buyers, thus incentivising sellers to be more efficient. Sellers may also compete by innovating to produce new and better products in order to attract buyers, thus bringing about higher quality and greater choice.
- 2.2. Government regulation is often important for promoting and protecting public policy goals. However, some regulations can have a substantial impact on competition in a market. For example, a regulation that caps the number of sellers in a market to only one or a few would in general directly limit competition. Similarly, a regulation that fixes the price of a product would reduce one of the ways sellers compete.
- 2.3. Policy-makers may also choose to involve professional or industry associations in regulating its respective profession or industry, either independently of the government (self-regulation) or with partial governmental legislative backing (co-regulation). There are potential advantages arising from self-regulation, one of which is that it ensures the necessary specific expertise is utilized in regulating the industry or

¹ "Seller" refers to the supplier of the goods and services, ranging from producers of raw materials to sellers of the final product.

² "Buyer" refers to any person or firm who buys products and services, whether as inputs for production or resale, or as final end-products.

profession. However while rules and practices implemented by associations may be motivated by public interest, it should be noted that they may also have anti-competitive effects if they are abused to protect the interest of firms in the industry.

- 2.4. Regulations and policies that take in to consideration their impact on competition can increase productivity and result in healthy competitive markets that will benefit the economy as a whole. Hence it is important that policy-makers conduct a Competition Impact Assessment as part of an overall assessment of policy options and as early as possible in the policy development process. Having considered the potential impact on competition, policy-makers government agencies are then able to weigh that against other policy goals in the formulation of a policy.
- 2.5. Competition Impact Assessment refers generally to a process of evaluating government policy options or existing policies to identify aspects that may unduly restrict competition and to identify alternatives that may achieve the desired policy goal that is less restrictive of competition.
- 2.6. The Competition Impact Assessment may involve 4 steps:
 - Step 1: Establish policy goals and policy options
 - Step 2: Identifying affected markets
 - Step 3: Evaluating impact on competition
 - Step 4: Mitigating the adverse impact on competition
- 2.7. As a first step, government agencies are encouraged to identify options that can achieve the policy goals. Some of these options will be less restrictive on competition compared to others. It is important that the government agencies are aware of the impact of each of the policy options on competition as it makes its choices.
- 2.8. Secondly, government agencies will also need to identify who will be affected, directly or indirectly, by the proposed policy. Section 3 of the guidelines provides guidance on identifying the markets affected.
- 2.9. Thirdly, government agencies will need to understand the state of competition in the affected markets and the impact of the policy options on the state of competition. The competition assessment checklist can be used as a guide. Section 4 of the guidelines discusses about the competition assessment checklist in greater detail.

- 2.10. Finally, the government agencies should consider some possible measures to mitigate any adverse impact that the selected policy option may have on the state of competition. This is covered in Section 5.

3 IDENTIFYING AFFECTED MARKETS³

- 3.1. Generally, a market is a set of products and geographical areas which are sufficiently close substitutes to exercise competitive constraints on each other. In defining the market, there are generally two aspects of the market to consider:
- Product market: For example, durians may not form a market in itself, if buyers are willing to switch to say; jackfruits instead, should the price of durians increase significantly. In this case, the product market may comprise both durians and jackfruits.
 - Geographic market: If buyers are willing to go to Malaysia to get durians if the price of durians in Singapore increases significantly, then durians sold in the two countries should be considered as the same geographic market.
- 3.2. Identifying the products or services directly affected by a proposed policy is relatively straightforward. Hypothetically assume that the government introduces a set of restrictions regarding the form and manner in which qualified dentists can advertise their fees and services. For example, it may stipulate the exact type of information that advertisements can specify and that advertisements can only be on major newspapers and medical journals. The directly affected market would be the market for dental services. The restrictions on advertising may limit the avenues and manner in which new dental clinics can publicize their entry in the market and as a result, limit their ability to compete with incumbents.
- 3.3. Once directly affected markets have been identified, consideration should be given to products and services which may be indirectly affected by the

³ Please refer to the CCS' Guidelines on Market Definition for a more detailed discussion on market definition.

- policy because consumers or suppliers may substitute to other products and services in response to the new policy.
- 3.4. To assess the indirect effects of the proposed policy, policy-makers will need to consider:
- Willingness and ability of buyers to switch from the directly affected product to other alternative products not affected by the proposed policy.
 - Willingness and ability of sellers to switch to supplying the affected product or its alternatives not affected by the proposed policy.
- 3.5. Extending the hypothetical example of the advertising restrictions on qualified dentists' services, an example of an indirectly affected market in this case would be the market for over-the-counter dental products, e.g. teeth whitening agents.
- 3.6. Besides defining the product characteristics of a market, it is also important to define the geographic market when assessing the impact of the policy. For example, the geographic market for dental services may include other countries as well.

Related markets

- 3.7. Markets that may be affected by the proposed policy may also include markets for complements and secondary products. Complements are groups of products that are consumed or produced together. For example, complements for lamps would be light bulbs. Secondary products are products that are only purchased if the buyer has already purchased the primary product. For example, a secondary product for cars is car maintenance services.
- 3.8. A policy can also affect the upstream and downstream markets of the product in question. Policy-makers would need to identify and understand not just the product affected, but also the supply chain. For example, an upstream market for ready-mixed concrete would be the market for cement, whilst a downstream market would be the market for construction services.

- 3.9. The policy may have a knock-on effect on these markets and should be considered in order to better take account of the full impact of the proposed policy on competition.

4 EVALUATING IMPACT ON COMPETITION

- 4.1. To evaluate the impact on competition, agencies should first have an understanding of the state of competition in the identified market. This will include:
- (i) The current extent of competition, e.g., the number of sellers and their market shares, the number of buyers, their respective bargaining power, the geographic market⁴, the types and degree of competition in the market⁵, barriers to entry and exit and the rate of innovation, e.g. in terms of production techniques and product variety.
 - (ii) The extent of potential competition, e.g., the ease with which new sellers can enter the market⁶, the willingness and ability of sellers to switch to supplying the affected product or its alternatives⁷, buyers' willingness and ability to switch to different sellers of same products or sellers of competing products⁸.
- 4.2. Next, agencies should ask if the proposed policy is likely to:
- (i) limit the number or range of sellers;
 - (ii) limit the ability for sellers to compete; and/or
 - (iii) reduce the incentive of sellers to compete vigorously.

⁴ For example, the geographic market may be wider than Singapore, if buyers are willing and able to switch to imports should there be an increase in the prices of the products made locally.

⁵ For example, do the sellers in the market compete based on price, or by seeking to differentiate their products from the rest?

⁶ Some potential factors affecting the ease of entry into a market include: the need for licences, limited access to key inputs or sales channels etc.

⁷ For example, producers of soap may be able to switch to or extend their product line to include shampoo if the price of shampoo increases. The reason is that the production techniques and infrastructure for producing soap and shampoo may be very similar, enabling producers to make the switch in a relatively short time.

⁸ This asks how price-sensitive buyers are, and if they would switch sellers (eg: from apple seller A to apple seller B) or switch to other substitutes (eg: from apples to pears) when the prices of the products increase. Factors such as brand loyalty and switching costs would also need to be taken into account.

- 4.3. The Competition Impact Assessment Checklist presented below is meant as a tool to aid policy-makers in making a preliminary competition impact assessment at an early stage in the policy development process. The Checklist organises specific restrictions on competition under three main general categories of restrictions. However it should be recognised that some specific restrictions may fall under one or more of the broad categories. For example, the creation of a self-regulatory regime may both lead to limits on the number of suppliers and also reduce the incentive for suppliers to compete.
- 4.4. If the answers to all three questions in the Checklist are ‘no’, it is unlikely that the proposed policy will raise any competition concerns. If the answer to any question in the Checklist is ‘yes’, the proposed policy may require further examination on whether competition concerns may arise. The extent of further examination should be proportionate to the extent of the potential adverse impact on competition. Government agencies which require guidance on a more in-depth competition assessment may contact the CCS.

Competition Impact Assessment Checklist

A proposed policy may require further examination for possible competition concerns if it is likely to:

1) Limit the number or range of sellers

This is likely to be the case if the proposed policy:

- Grants exclusive rights to a seller for the provision of a product
- Creates a form of licensing scheme
- Significantly raises the cost of entry or exit by a seller
- Raises the costs of some sellers relative to others

2) Limit the ability of sellers to compete

This is likely to be the case if the proposed policy:

- Controls or substantially influences product prices, or other characteristics, e.g. affects product quality or choice of products
- Limits the freedom to advertise or market products

3) Reduce the incentive of sellers to compete vigorously

This is likely to be the case if the proposed policy:

- Allows market players to set up anti-competitive rules or engage in anti-competitive practices under the pretext of self-regulation
- Requires or encourages the exchange of sensitive information between sellers which may facilitate collusion (e.g. prices, output, sales or cost)
- Reduces the mobility of buyers by increasing the costs of switching

5 MITIGATING ADVERSE IMPACT ON COMPETITION

- 5.1 Government regulation is often important for promoting and protecting policy goals. There are often multiple policy options for achieving a given policy goal, some of which may have the unintended effect of restricting competition in markets. While it is preferable to implement a policy option that does not have any adverse impact on competition, this may not always be possible. In such instances, policy-makers should consider ways to mitigate the adverse impact on competition.
- 5.2 This section identifies some examples of regulatory provisions that may potentially result in an adverse impact on competition and suggests alternative means that may be less restrictive of competition while continuing to achieve the desired policy goals.

Policies that may limit the number of sellers

- 5.3 Governments may sometimes limit the number of sellers in the market for sound reasons e.g. licensing sellers in the market to ensure minimum quality standards of suppliers. However, policies that limit the number or range of sellers may have the unintended effect of reducing competition in a market. Entry, or the threat of entry, is an important competitive pressure on existing firms. New entrants may introduce new business ideas, produce the same products using better and more efficient production methods or use alternative forms of channels to supply the goods to consumers. New players may also choose to enter geographic markets not occupied by existing players. Hence, the threat of entry places pressure on existing firms to be more efficient and competitive in prices and quality of their products and services. Policies that prevent or limit entry by new firms, whether directly or indirectly, can potentially have adverse effect on competition and economic efficiency, in a dynamic sense.
- 5.4 A proposed policy may limit the number and range of suppliers, for example, if it:
- Grants exclusive rights to a seller for the provision of a product
 - Creates a form of licensing scheme
 - Significantly raises the cost of entry or exit by a seller

- Raises the costs of some sellers relative to others

Grants exclusive rights to a seller for the provision of a product

- 5.5 Policy-makers sometimes grant exclusive rights as a means of encouraging substantial investments in infrastructure or research & development that would not be likely to be carried out otherwise. Granting a monopoly to a seller can also be a means of allowing the seller to reap economies of scale⁹, without which it may not supply the product at all. However, the grant of exclusive rights to a seller in a market results in the creation of a private monopoly for the duration of the grant. It should be noted that the grant of such rights excludes competition for the duration of the grant.
- 5.6 Policies that lead to the creation of a monopoly are likely to yield problems associated with market power, such as monopoly pricing. Policy-makers need to consider whether there is sufficient justification for an outcome that is restrictive of competition in the market, and if there are less restrictive alternatives of achieving the policy objective(s). Benefits from cost-savings through awarding a single contract should be weighed against the resulting loss in competition.
- 5.7 If other alternatives are not practicable, policy-makers can take steps to try and address the competition concerns. For example, policy-makers can consider granting exclusive rights through a bidding process to allow for competition for the exclusive rights. Policy-makers should also consider limiting the duration of the exclusive rights to a relatively short period.
- 5.8 The size of the contract itself may also restrict the number of sellers able to bid for it. Policy-makers can consider if it is possible to have smaller contracts that will also be open to smaller sellers, to foster competition.

Creates a form of licensing scheme

- 5.9 Licenses are often used to ensure that sellers meet the minimum standards to operate in the market. Some trades and professions may be limited to persons holding certain qualifications only- such restrictions are also a form

⁹ Economies of scale refer to the reduction in cost per unit resulting from increased production, realized through operational efficiencies. Economies of scale can be accomplished because as production increases, the cost of producing each additional unit falls.

of licensing. Some licensing schemes may also have a fixed number (quota) of licensees.

- 5.10 Such licenses or permit schemes may be necessary where buyers are not well-placed to make their own judgments about the quality of the product, and where making a poor choice would result in serious and irreversible consequences.
- 5.11 However, these schemes restrict entry of new sellers into a market. Policy-makers may also wish to consider whether such schemes erect unnecessary barriers to entry that have the effect of protecting existing sellers from competition, thus reducing choice and increasing prices.
- 5.12 The restrictions imposed should therefore be no stricter than necessary to achieve the policy objective of protecting consumers. Policy-makers may also consider ways to improve any information asymmetry between the sellers and consumers, e.g. educating consumers to make informed choices in this area, thereby reducing the need for imposing such restrictions.

Significantly raises the cost of entry or exit by a seller

- 5.13 Policies that raise cost of entry or exit by a seller tend to discourage potential entrants and will hence indirectly limit the number or range of sellers in the market and may result in less vigorous competition in the market. Examples of increased cost of entry include increased rigour in product testing requirements or higher requirements to demonstrate “financial capacity”. An example of increased exit cost is more stringent regulation requiring cleanup of former industrial sites.
- 5.14 Such policies may be necessary to achieve consumer protection or environment protection goals. This may be especially true in cases where there exist significant risk of consumer harms associated with the use of a product. However, it may be possible that in some cases, such goals can be achieved by means that are less restrictive of competition. To minimize the competitive impact of such provisions, policy-makers can also consider targeted exemptions or assistance schemes to help sellers comply. For example, in some countries, low-volume car manufacturers are exempted from aspects of vehicle testing regulations, or are subject to less onerous testing protocols.

Raises the costs of some sellers relative to others

- 5.15 Policies may be structured in such a way that can inadvertently favour some firms over others. For example, a policy that sets a certain technology standard on firms will favor those that have already adopted this technology. Firms that already use alternate technologies will suffer a competitive disadvantage and may exit the market if they are not able to invest in the preferred technology. Hence, such a policy may indirectly limit the number of firms in the market. New firms may also face increased costs relative to existing firms if policies require new firms to comply with higher standards as compared to incumbents ('grandfather rights'), or if existing firms are given preferential access or rates to scarce inputs. Policy-makers may want to ensure that they maintain a level playing field when introducing such policies.

Divestments of government-owned assets

- 5.16 Divestments of companies or assets held by the government can have a significant impact on the structure of the industry concerned. If the company to be divested has significant market power, then the market power which was vested in a public entity before the divestment will be replaced by private market power (following the divestment).
- 5.17 Policy-makers may wish to consider altering their divestment approach to take account of the industry structure, to facilitate competition in the market. For example, instead of divesting the company as a single bloc, divesting the assets in a few lots that are managed independently, may serve to facilitate competition.
- 5.18 It should be noted that, depending on how the divestment is structured, it may come under the Section 54 prohibition in the Competition Act (that prohibits mergers that substantially reduce competition in a market).

Policies that may limit the ability of sellers to compete

- 6.1 Sellers compete in a variety of ways, such as through price and quality of their products, service standard, innovation etc. Policies which restrict the ability of sellers to compete in any way can raise competition concerns.

- 6.2 A proposed policy may limit the ability of sellers to compete, for example if it:
- Controls or substantially influences product prices, or other characteristics, e.g. affects product quality or choice of products
 - Limits the freedom to advertise or market products

Controls or substantially influences product prices or other characteristics

- 6.3 Price regulation of any kind will inevitably reduce the ability of the market to respond to market forces. If a minimum price is set, low-cost sellers cannot compete by providing cheaper variations of the product, which some consumers may prefer. A justification sometimes given (e.g. by professional associations) for setting minimum prices is to ensure product quality. However, minimum prices may also protect inefficient sellers who would otherwise be motivated to find more efficient means of production to remain in the market. Conversely, a maximum price which aims to protect consumers from over-paying may reduce sellers' incentives to innovate to provide new and/or high quality products to target at higher end of the market. It may also have the unintended effect of causing prices to gravitate towards the ceiling, reducing the intensity of price competition.
- 6.4 Policy-makers may have other overriding policy goals when they first impose regulation on prices. However, markets are generally the best mechanism for determining the appropriate price level. To allow for greater competition in the market in the future, policies could be designed in a way such that price regulations can be gradually removed. Where possible, it is also important for policy-makers to consider alternatives other than price regulation, in achieving their policy goals. If the objective of setting minimum prices is, for example, to assure minimum safety standards, policy-makers should consider if isolating the area of concern through direct monitoring of safety standards would be a practicable means of achieving that objective.
- 6.5 Policies may also seek to regulate product characteristics other than price. They may, for example, stipulate minimum quality standards, or they may limit the sales channels a seller can use, for example, certain medicines may not be sold over the counter. Such policies can also have an impact on competition, and where possible, restrictions should be kept to the minimum necessary to achieve the policy objective.

Limits the freedom to advertise or market products

- 6.6 Restrictions on advertising or marketing are usually aimed at limiting false or misleading advertising, or reduce advertisements on products that are deemed to be socially harmful.
- 6.7 Preventing false and misleading advertising may serve to protect consumers' interests or fulfill certain social goals. However, policy-makers should note advertising restrictions which are overly restrictive, can limit the information available to consumers and consequently, their ability to make informed choices.
- 6.8 If the policy objective is to reduce consumption of socially negative products and services, alternatives such as information campaigns may be considered.

Policies that may reduce incentive of sellers to compete

- 7.1 Competition not only depends on the sellers' abilities to compete but also their incentives to compete vigorously. Regulations may have the unintended effect of reducing incentives to compete by creating an environment that facilitates co-operation among sellers. Some regulations may also make it difficult for buyers to switch between different sellers.
- 7.2 A proposed policy might reduce the incentive of sellers to compete vigorously, for example, if it:
- Allows market players to set up anti-competitive rules or engage in anti-competitive practices under the pretext of self-regulation,
 - Requires or encourages the exchange of sensitive information between sellers which may facilitate collusion (e.g. prices, output, sales or cost),
 - Reduces the mobility of buyers by increasing the costs of switching

Allows market players to set up anti-competitive rules or engage in anti-competitive practices under the pretext of self-regulation

- 7.3 Policy-makers may choose to involve professional or industry associations in regulating its respective profession or industry, either independently of

the government (self-regulation) or with partial governmental legislative backing (co-regulation). There are potential advantages arising from self-regulation, one of which is that it ensures the necessary specific expertise is utilized in regulating the industry or profession.

7.4 However while rules and practices implemented by associations may be motivated by public interest, it should be noted that they may also have anti-competitive effects if they are abused to protect the interest of firms in the industry. .

- Consumers, as a whole, benefit from lower prices and better quality products and services when firms compete vigorously on prices and non-price terms. Some rules set by self-regulatory bodies, such as rules forbidding “price-cutting”, binding or non-binding recommendations on prices, may have the aim or the effect of dampening price and non-price competition.
- Entry, or the threat of entry to the market, is an important competitive pressure on existing firms. Some rules set by self-regulatory bodies may make new entry difficult. For example, the imposition of stringent requirements such as high qualifications to practise in the profession may be necessary to serve consumer interests. However, imposing overly strict qualification requirements will raise the barriers of entry in to the industry and limit competition.

7.5 Policy-makers may wish to consider how self-regulation can be encouraged without resulting in an adverse impact on competition.

Requires or encourages the exchange of sensitive information between sellers which may facilitate collusion (e.g. prices, output, sales or cost),

7.6 Industry players sometimes come together to form industry organizations and engage in some types of cooperation. These include

- forming of associations which allows industry players to meet and exchange information about industry trends and market conditions
- setting best practice guidelines and rules for industry players to follow

- setting up research and development joint ventures to promote innovation
 - setting up cooperatives for joint-purchases
- 7.7 While there are legitimate reasons for allowing and encouraging these types of cooperation, an unintended side effect may be that some of these mechanisms also allow competitors to exchange information that facilitates collusion. As a general rule, the cooperation and information exchanges would generally raise competition concerns if they are related to current prices and output levels.
- 7.8 There are also some markets where there exist greater risks of collusion. In general, the possibility of collusion tends to be less likely if the industry is characterized by many players with dissimilar costs, and which offer fairly differentiated products and low barriers of entry. In such markets, mechanisms that allow cooperation and information exchanges are less likely to raise competition concerns.
- 7.9 Some of such industry organizations may also take on the role of providing information on market rates to consumers and industry players via price guidelines. Such guidelines may facilitate coordination of pricing decisions, especially in markets where there is greater risk of collusion. If the objective is to inform consumers of prices to reduce their cost of searching and comparing, policy-makers should consider encouraging sellers to adopt measures to enhance transparency to consumers, for example, by publishing or advertising their own prices to consumers.

Reduces the mobility of buyers by increasing the costs of switching

- 7.10 The ability of buyers to easily switch to a seller that provides a lower price, better service or quality, incentivises sellers to compete vigorously and so promotes efficiency in a market.
- 7.11 Long-term contracts with high financial penalties for leaving before the stipulated time period make it harder for buyers to switch between sellers. Policies that reduce costs of switching can help promote competition. For example, Singapore was among the first countries in the world to have numbers portability for mobile services, a move that has helped to promote competition in mobile telephony services.

- 7.12 The imposition of switching costs is usually to help sellers regain their costs when buyers switch from one seller to another. In general however, there are significant pro-competitive effects in reducing or eliminating switching costs.