

# Competition and Poverty Reduction: What Is the Role for Competition Authorities?

*By Ana Paula Guimarães & Paulo Burnier da Silveira*



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## 1. Introduction

The OECD last explored the topic of “Competition and Poverty” during the last Latin American and Caribbean Competition Forum (“LACCF”) held in Quito, Ecuador (September 28-29, 2023). The main objective was to explore the interface between competition policy and poverty reduction in the Latin American context, including the role for competition authorities, given that poverty reduction remains a top priority for the governments in the region.

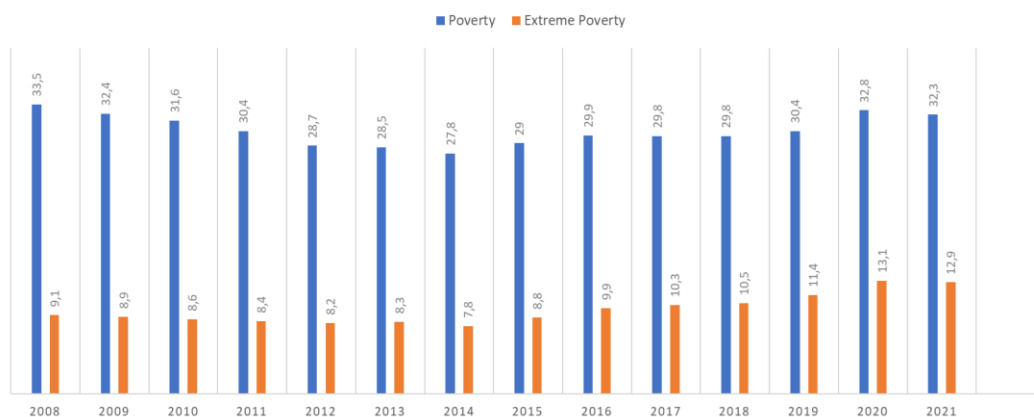
In a nutshell, the LACCF discussions indicated that competition authorities can indeed contribute to a broader policy of poverty reduction in their countries, particularly by prioritising their work towards markets that have a greater impact on the poor, such as those for essential goods and services (e.g. staple food, healthcare, and transport).

This article provides an overview of the discussions held in Ecuador, building on the OECD’s Background Note prepared for the LACCF roundtable.<sup>3</sup> We will first provide the specific context of poverty in Latin America to set the scene, then address how competition authorities can contribute to poverty reduction, and conclude with brief final remarks.

## 2. The Latin American Context

Latin American countries have suffered from high levels of poverty and social inequality for decades. The recent health crisis related to COVID-19 also added to economic difficulties and increased social gaps. In 2020, 32,8 percent of Latin America’s population was living in poverty or extreme poverty, the highest percentage since 2008, as shown in the figure below:

**Figure 1. Population living in poverty in Latin America (2008-2021)**



Source: Adapted from CEPAL – ECLAC – UNITED NATIONS

(available at: <https://statistics.cepal.org/portal/databank>)

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<sup>3</sup> This article is an adjusted version of the OECD Background Note prepared by the authors for the 2023 Latin American and Caribbean Competition Forum (LACCF) and available here: [www.oecd.org/competition/latinamerica](http://www.oecd.org/competition/latinamerica).

The forecast remains negative in terms of poverty indicators for the near future in the region: the World Bank anticipates a rising trend for extreme poverty due to the pandemic, instead of the decreasing trend expected for the same period before the pandemic.<sup>4</sup>

At the same time, competition policy enforcement has increased in Latin America and the Caribbean over the last few decades. New competition laws were enacted, existing competition frameworks were improved, and competition enforcement was boosted overall, with more than 20 competition authorities currently active in the region.<sup>5</sup>

The impact of competition on consumer welfare has been well documented, including its main benefits to consumers (e.g. lower prices, higher outputs, better quality of products and services). However, the effects of competition on poverty are less clear since it may sometimes increase inequality gaps and lead to job losses in the short run while producing the above-mentioned benefits for consumers.

Against this background, the LACCF explored the role of competition policy in poverty reduction, particularly the question of how competition authorities can better contribute to fighting poverty. The discussions benefited from contributions made by a dozen competition authorities from the region, as well as the following expert speakers: Ms. Eleanor Fox (Professor Emeritus at New York University), Ms. Catalina Medel (Professor at the University of Chile) and Ms. Taimoon Stewart (Honorary Research Fellow at the University of West Indies).

### **3. Role of Competition Authorities: Prioritization of Competition Work On Key Markets**

A key part of the LACCF discussion was to understand whether – and how – competition authorities could support the broader policy of

poverty reduction, while remaining aware that competition policy may help increase the size of the “pie” in a given economy, but not in determining how to slice it (e.g. re-distributive policies).

In this context, a consensus emerged around the benefits that a reorganization of priorities by competition authorities could have on poverty, particularly when focused on markets that have a greater effect on poor people. This prioritization can be achieved either through competition enforcement or competition advocacy, which would illustrate in practice the implementation of the so-called “pro-poor competition policy” advocated by Professor Eleanor Fox.

#### **3.1. Prioritization of Competition Enforcement**

First and foremost, competition authorities can support the fight against poverty by prioritizing their enforcement actions in markets that have a proportionally greater impact in the poorest part of the population.

Indeed, poor consumers emerge as the main beneficiaries of a pro-poor competition law enforcement since they stand to benefit from lower prices and/or better products and services, particularly when they concern basic needs. The same is true for small entrepreneurs when they act as “consumers/users” of inputs that are key for the performance of their business activities and/or help to build competitive conditions that allow for a better business environment.

In this context, previous research on Latin American countries has shown that food and beverages represent almost 50 percent of low-income groups’ consumption basket, which is three times greater than that of higher-income groups.<sup>6</sup> Local data show that this percentage is even higher in certain countries, such as Mexico, where it is estimated that 79 percent of

<sup>4</sup> World Bank, Poverty and Shared Prosperity: Correcting Course, 2022.

<sup>5</sup> OECD, Competition trends in Latin America and the Caribbean, 2022.

<sup>6</sup> World Bank, A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth, 2017.

the income of the poor is spent on purchasing essential goods.<sup>7</sup>

In addition, public procurement also appears as an area in which competition authorities can focus enforcement actions, given the savings in public resources (i.e. combatting bid-rigging) that could then favour poverty reduction policies led by governments. The nature of services/products often purchased via public procurements may also proportionally benefit the poorest sectors of the population more (e.g. basic education and health services).

Indeed, several examples from the region illustrate the benefits of competition enforcement in socially sensitive markets, as presented below.

In 2020, the *Comisión Federal de Competencia Económica* (“COFECE”) issued a warning letter to the National Tortilla Council, through their representatives in the states of Hidalgo, Tamaulipas and Puebla, on the possible consequences to companies and consumers in case of price-fixing or market sharing. This action adds to several other enforcement activities in the markets for wheat and corn tortilla, including sanctions against tortilla producers and their association for engaging in cartel practices in different Mexican municipalities. Some of these municipalities are located in highly marginalised and impoverished regions, such as Palenque, Angel Albino Corzo, or Huixtla in the State of Chiapas.<sup>8</sup>

In 2018, the *Conselho Administrativo de Defesa Econômica* (CADE) of Brazil sanctioned a cartel in the market for salt extraction among companies which accounted for over 70 percent of the national production artificially increased prices for salt used for various purposes, including food. The fine imposed reached nearly BRL 300 million (around EUR 60 million) and damages were estimated at around BRL 250 million (around EUR 50 million).<sup>9</sup>

In 2015, the Supreme Court of Chile confirmed a decision from *Tribunal de Defensa de la Libre*

*Competencia* (“TDLC”) that sanctioned a national cartel in the market of poultry production including total fines of around EUR 60 million imposed on the three largest poultry companies in Chile and its industry association. The decision also ordered the association to be dissolved as an additional sanction given its active role in the implementation of the cartel (FNE, Proceeding n. 27.181-2014, 2015).

These examples provide recent and concrete illustration of how a “pro-poor competition law enforcement” can support poverty reduction (or at least alleviate the effects for those who need the most).

### 3.2. Prioritization of Competition Advocacy

Prioritization of work related to competition advocacy can also contribute to the broader agenda of poverty reduction, for instance through market studies, pro-competitive reforms, quantification of benefits, and opinions on price control focused on key markets with greater impact on the poor population.

Market studies are a crucial tool used by competition authorities to analyse and understand market dynamics and identify potential competition issues. They also help competition authorities gather relevant information about a particular market, assess its competitiveness, and monitor the likelihood of any anti-competitive practices that may be harming consumers. As a result, they may serve to justify (or not) a competition law enforcement action or to present an opinion to legislators related to a draft legislation under discussion.<sup>10</sup>

In Latin America and the Caribbean, competition authorities have dedicated significant efforts to developing market studies. LAC countries meet the OECD average on this matter, with around

<sup>7</sup> COFECE, Reporte sobre las condiciones de competencia en el sector agroalimentario, 2015.

<sup>8</sup> COFECE, Press Release n. 007-2022, 2022.

<sup>9</sup> CADE, Administrative Proceeding n. 08012.005882/2008-38, 2018.

<sup>10</sup> OECD, The role of market studies as a tool to promote competition, 2016.

two market studies per competition authority per year on average.<sup>11</sup>

In 2023, the *Superintendencia de Competencia Económica* (“SCE”) of Ecuador published a market study in the agriculture sector including cereals (wheat and rice), meat (chicken, beef and fish) and vegetables (potato, tomato, vegetables and onion). The selected products were chosen due to their relevance in national production, nutritional contribution, and weight in the basic basket of essential foods. The study will gather data from several sources including loans granted by public banks, details of imports and exports, details of employment and remuneration (by gender), and details of seed production and commercialization.

In 2020, the *Comisión para Promover la Competencia* (“COPROCOM”) of Costa Rica issued an opinion to advocate against price regulation of rice in the country. The opinion argued that competition is the best driver for better prices and highlighted the risks of higher prices to consumers in case regulated prices were set above competitive levels, as well as the risks of shortage in case the prices were set below competitive levels. The opinion concluded with a list of recommendations including a request to the Ministry of Economy, Industry and Trade to abolish price regulation or to justify the alleged benefits of the given price regulation policy.<sup>12</sup>

These examples illustrate how competition authorities can redirect resources to promote better markets in key sectors such as agriculture, which has a proportionally greater impact in the daily lives of the low-income population.

#### 4. Final Remarks

Competition policy is not a silver bullet to address poverty issues, but it is an important instrument which should be integrated into a broader public policy aiming to reduce poverty. As a consequence, effective coordination between competition policy and other public policies is also valuable, helping competition authorities assess the public’s needs and to support broader governmental priorities. As we know, a healthy economic environment can enable companies to be more efficient, producing more value, offering better prices, and improving their products and services.

In this way, the LACCF discussions confirmed that competition policy can help poverty reduction by doing what it does best: promoting efficiency in markets and benefiting consumers. Competition authorities can also prioritize their work on markets that have a greater impact on the poor population, alleviating poverty through lower prices and better products and services in socially sensitive markets such as sugar, beans, salt and healthcare.

As for future work, the challenges of the informal sector were emphasized by many LACCF delegates, which is very much connected to the fight against poverty. In this sense, Professor Frédéric Jenny, chairman of the OECD Competition Committee, highlighted the importance of further exploring the relationship between concentration on the formal sector and the lack of growth in formal sector jobs, which could be a path to reducing the size of the informal economy in Latin America and the Caribbean. Similarly, promoting flexibility in the economic system, as well as addressing problems on regulation and access to markets, could further help those who work in informal economies due to a lack of options for entering the formal sector.

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<sup>11</sup> OECD, OECD Competition Trends, 2023.

<sup>12</sup> COPROCOM, Opinion no 62-2020, 2020.