



**Asia-Pacific
Economic Cooperation**

2012/SOM1/CPLG/031

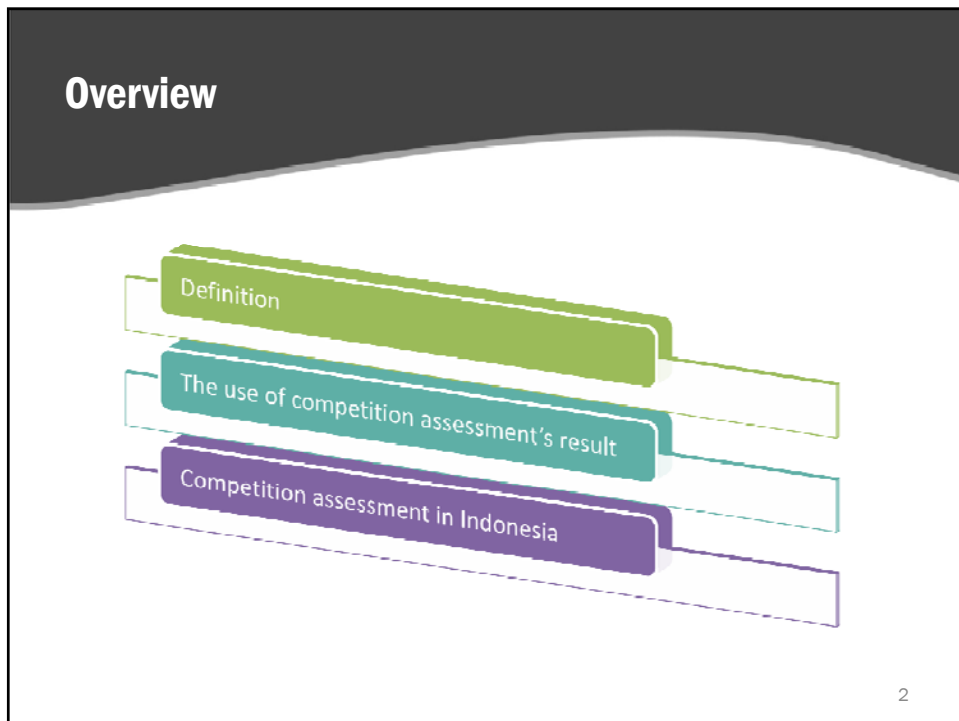
Agenda Item: 10

Competition Assessment and Economic Development

Purpose: Information
Submitted by: Indonesia



**Competition Policy and Law Group Meeting
Moscow, Russia
12-13 February 2012**



The definition

- Competition Assessment is about finding the rule or regulation that minimizes the negative impact on competition (or maximizes the positive effect on competition) conditional on goal achievement. Competition assessment has no competence to discuss or question goal (of a policy); no interest in efficacy or efficiency in wider sense; and concerns only the competition impact. Competition Assessment is about streamlining rules and regulations to reduce or eliminate negative repercussions on the competitive process. (Frank Maier-Rigaud, OECD)
- The Competition Assessment is designed to identify any impacts of a proposal in terms of it restricting or encouraging competition, and to help in the design of policy proposals to enable them to meet policy objectives without unduly limiting or damaging competition in markets. (HM Treasury, UK)

3

The usefulness

- To convince policy maker in accepting arguments by competition authority
- To convince public on the benefit of competition policy and enforcement
- To help society in supervising the performance of competition authority

To help competition authority in:

- evaluating certain government policy
- measuring their effectiveness
- convincing public and relevant stakeholders (parliament, etc)

4

Competition assessment in Indonesia

Approaches related to assessing competition

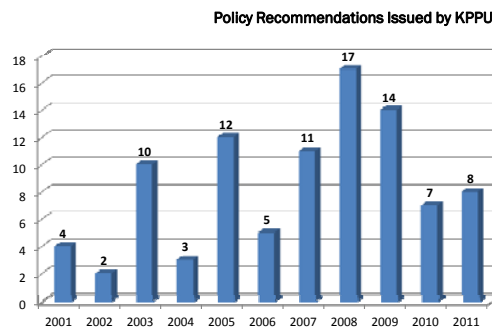
- 1 Competition assessment as tool in identifying the impact of certain economic policy
- 2 Competition impact assessment to measure the impact of certain policy change or decision on competition violation
- 3 Indicator for level of competition in certain sectors

5

Competition assessment as common tool

Competition assessment is part of procedure conducted by the Commission in assessing government policy. It uses in every policy analysis that lead to recommendation by the Commission.

From 2001-2011, KPPU has issued 93 policy recommendations;



Most recommendations related with regulations concerning transportation, telecommunication, energy and retail sectors;

More than 50% of our recommendation received positive respond from Government. The rest still in the process of policy dialogue and harmonization;

6

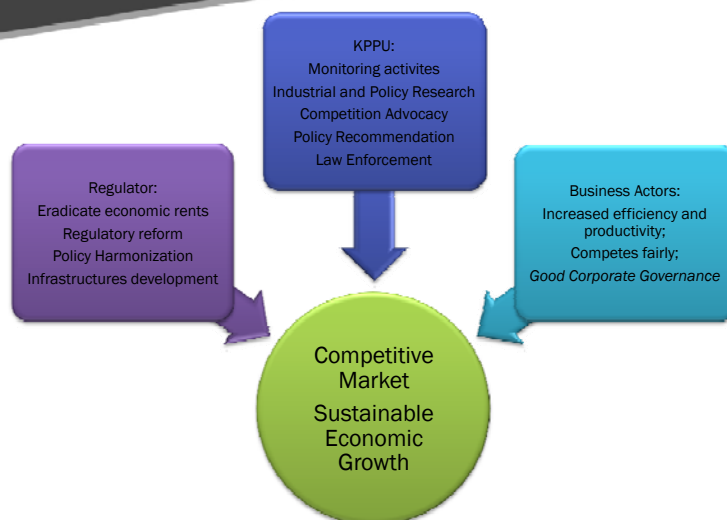
Competition impact on economy

Competition law and Policy provides:

- Minimum entry barrier;
- Equal level of playing field;
- Minimum competition restraint (in terms of regulations and horizontal);
- Affordable and availability of product (good and services);

7

Competition impact on economy



8

Survey on business awareness as tool to assess business knowledge on competition

Purpose:

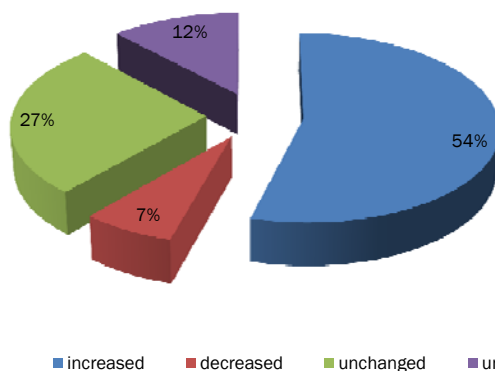
To estimate business actor's perception about the implementation of Competition Law;

Methodology:

- Direct interviews with questionnaires;
- Respondents represent business actors from various sectors;
- Total data collected: 300 respondent from 5 cities;
- Additional information from business expert, academician and public figures;

9

Result (1)

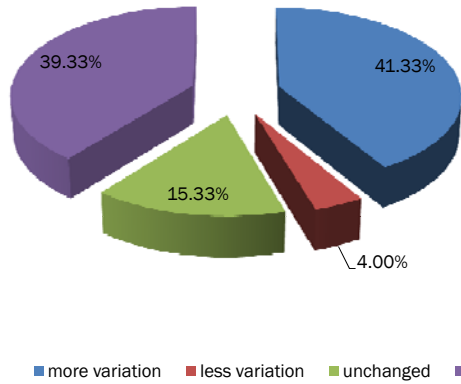


What do you feel about the competition climate in the past 10 years?

- 54 % of respondent claim that the competition is becoming more tight (increasing competition);
- 27% of respondent said that the competition climate remain the same;

10

Result (2)

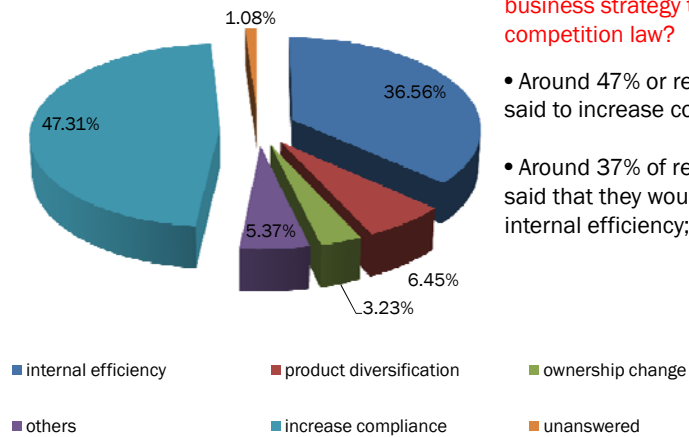


What do you think about the variety of products for the past 10 years?

- Around 41% of respondent said that the product variety is increasing for the past 10 years;
- Around 40% of respondent said that the product variety's remain the same;

11

Result (3)



What kind of change in your business strategy to anticipate the competition law?

- Around 47% of respondent said to increase compliance;
- Around 37% of respondent said that they would increase internal efficiency;

12

Result (conclusions)

- Most of respondent haven't aware or understand about the competition law;
- Most of the respondent do feel significant change in business practices and market development;
- Existing competition advocacy is not enough, We need new strategies for advocacy and outreach, specifically designed for business communities;

13

Competition impact on consumer welfare

Purpose:

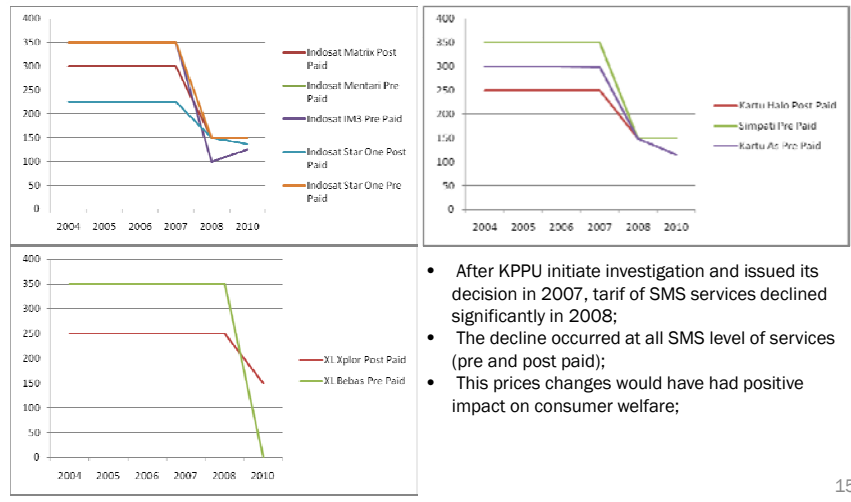
To estimate the impact of KPPU's decision on consumer welfare;

Methodology:

- Case studies, related to KPPU decision on cartel case in text messaging services (year 2007);
- Interviews with questionnaires;
- Respondent: 308 retail consumers in Greater Jakarta regions;
- Secondary data analysis;

14

Direct impact of investigation: Tariff changes



- After KPPU initiate investigation and issued its decision in 2007, tariff of SMS services declined significantly in 2008;
- The decline occurred at all SMS level of services (pre and post paid);
- This prices changes would have had positive impact on consumer welfare;

15

Consumer Survey: Result

	Increase very significantly	Increase significantly	Increase fairly	Do not change	Decrease fairly	Decrease significantly	Decrease very significantly
Monthly avg income	13	27	40	11	5	3	1
Monthly avg spending	11	29.5	32.5	14	8	4	1
Text usage	8	27	33	22	6	2	2
Voice usage	11.5	31	28	22	5	2	0.5
Data/internet usage	16	18	19	42.5	3	0.5	1

- More than 60% of respondent said that they increase their usage of SMS services after SMS tariff have been decreasing;
- This facts implies that end consumers have more welfare (or Consumer Surplus) to spent more on SMS, due to lower tariff;
- Majority of Respondent (more than 60%) have positive perception about KPPU's decision on SMS cartel and also its impact on their welfare;

16

Consumer Survey: Result (2)

- Using certain assumptions, and applying Compensating Variation methodology, KPPU tried to estimate how much is consumer welfare due to KPPU's decision on SMS cartel;
- During 2007-2009 period, KPPU estimated that Consumer welfare have reach as much as 1.8 – 1.9 Billion USD;
- Input from stakeholders and experts, respond and quantitative data (especially total consumer welfare) may have been under estimated, due to the fact that during 2007-2009 most of Indonesian people have enjoyed significant increase in their income;

17

Consumer Survey: Conclusions

- There is positive respond from Consumer about SMS cartel case;
- Need to explore other methodology to estimate consumer welfare;
- Must have wider respondent, therefore bigger scale of surveys is needed (nationwide);
- Competition impact assessment not only for specific SMS cartel case but for other important and strategic competition cases and policy changes due to KPPU recommendations;

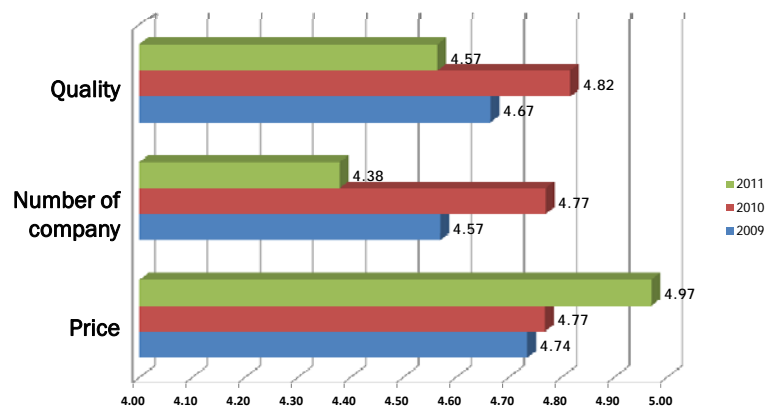
18

Competition indicator

- Sectoral competition index has been developed since 2009. Problems were raised during the development process (especially gap in primary data). Therefore, the index is developed using perception index.
- Assessment is conducted in telecommunication (since 2009), airline (since 2008), and cement (since 2011) sectors
- Methodology:
 - Direct survey to 100 respondents; local area (Jakarta); main focuses (price, number of company, and quality); scale (from 1 to 6)

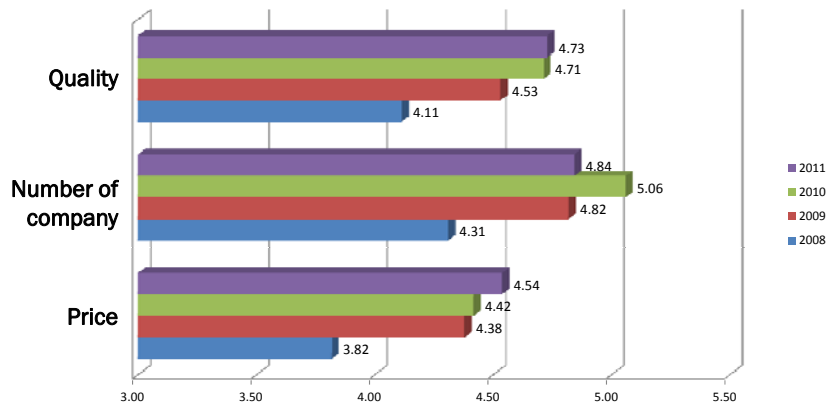
19

Result: (index in telecommunication)



20

Result: (index in airline)



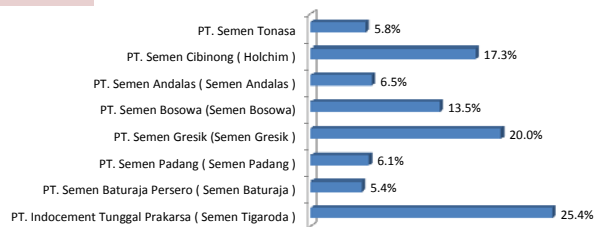
21

Result: (index in cement)

Main components	INDEX
Price	4.54
Number of company	5.19
Quality	4.73

Problems in cement sector:

- Consumer thought competition in cement is high;
- Relatively no competition in price, but rather in quality;
- Distribution by region, due to different location of natural resources



22

Conclusions

- Assessing competition is a must;
- Data is the most crucial factor in competition assessment, especially in quantifying it.
- Assessment result must be submitted as soon as the problem was addressed.

23