

Competition

UNDERTAKING A COMPREHENSIVE COMPETITION ASSESSMENT TO IDENTIFY GROWTH ENHANCING REFORMS

- ▶ In the past few years Portugal has considerably reformed its product markets to enhance competition.
- ▶ But economic growth in Portugal continues to be held back by regulations that hinder the entry and expansion of firms. While markets for tradable goods are generally rather competitive, non-tradable sectors such as transport and professional services continue to be inefficient.
- ▶ The economic performance of these sectors could be improved considerably by removing administrative and regulatory barriers to competition through a comprehensive programme that reviews regulations across key sectors.
- ▶ The Portuguese Competition Authority has recently set up a unit to perform such reviews. OECD experts could work with experts from the Competition Authority and the government to conduct a first set of reviews, based on the OECD's Competition Assessment Toolkit.
- ▶ Such a project would focus on a few key sectors, undertaking an in-depth review of laws and regulations to equip the government with a list of reforms needed to enhance competition in key sectors.

What's the issue?

Recent structural reforms have improved Portugal's competitiveness and long-term growth prospects. There have been important and high-profile regulatory reforms, including improvements in the electricity, gas and retail sectors. However, this generally positive message conceals significant variations between sectors and also obscures the very substantial opportunities that further reforms can bring. In particular, while markets for tradable goods are generally rather competitive, as is to be expected in a small open economy, markets in non-tradable sectors such as transport or professional services continue to be restricted and inefficient. This is reflected in comparatively high prices that Portuguese firms and households pay for these services.

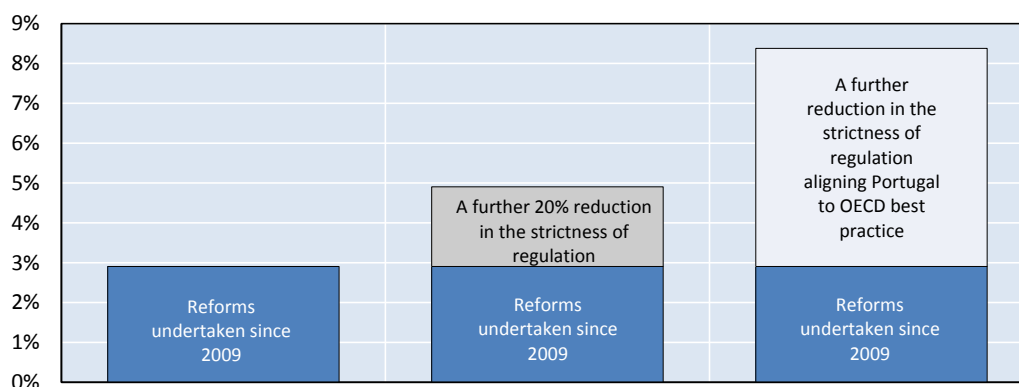
Why is this important for Portugal?

OECD research suggests that the product market reforms undertaken since 2009 – including improvements in the electricity, gas and retail trade sectors – will raise the level of GDP by 3% by the year 2020. But much more remains to be done. A reform scenario in which Portugal would reduce regulatory barriers to competition by 20%, about the same magnitude of changes observed over the past ten years in OECD countries that implemented product market reforms, would raise GDP by an additional 2% by 2020. If Portugal were to align its product market regulation to best practice among all OECD countries, the level of productivity and GDP would be 5½ per cent higher by 2020 than under a no-reform scenario. This represents an annual gain in nominal GDP of EUR 1.3 billion, measured in 2014 euros.

Reform is particularly pertinent in services sectors, not only because they account for a sizable share of total value added and employment, but also because they provide key inputs to tradable good production. Cost effective, state of the art services are therefore of utmost importance for the competitiveness of the Portuguese economy as a whole. Estimates suggest that 16 percent of the costs in tradable sectors consist of intermediate inputs from non-tradable sectors.

Product market reform could yield considerable GDP gains

Effect of product market reforms on the level of GDP in 2020



Source: OECD (2014), *OECD Economic Surveys: Portugal*.

What should policymakers do?

- ▶ Support the Portuguese competition authority in a systematic programme to review and design new more pro-competitive regulation in key sectors.
- ▶ Boost competition in the natural gas sector, where the incumbent operator continues to provide more than half the sales volumes and owns exclusive contract rights to the supply of wholesale pipeline gas.
- ▶ Review entry and price regulation in professional services such as accounting or legal services, engineering and architecture as the extent and nature of entry and price regulations may be excessive.



Further reading

OECD (2011), *OECD Competition Assessment Toolkit Vol. 1 and 2*, OECD Publishing. <http://www.oecd.org/daf/competition/assessment-toolkit.htm>

OECD Competition Assessment Reviews: Greece, OECD Publishing. <http://www.oecd.org/daf/competition/Greece-Competition-Assessment-2013.pdf>

OECD (2014), *OECD Economic Surveys: Portugal*, OECD Publishing. <http://www.oecd.org/eco/surveys/economic-survey-portugal.htm>

