

GREECE: THE PATH TO A COMPETITIVE FUTURE



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Wilson Center, 22 May 2014

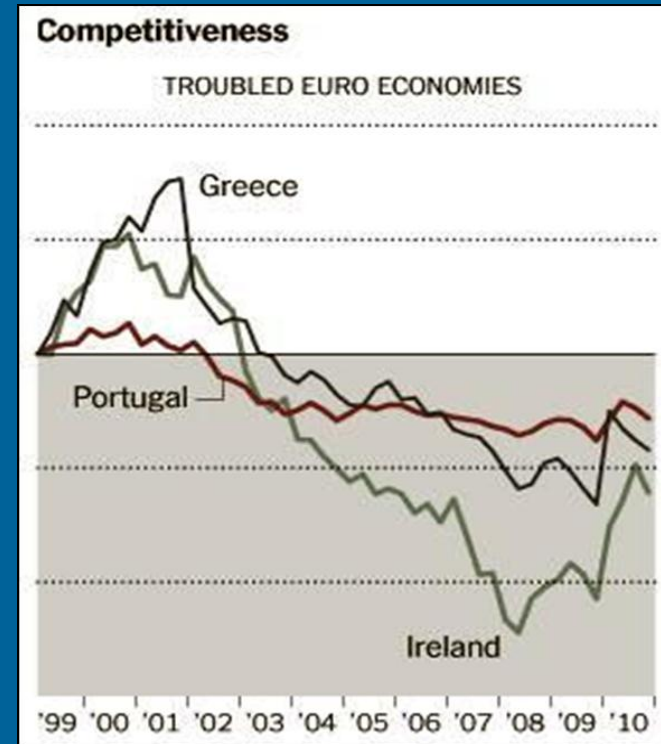
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Background

- 1981: Greece joins European Community
- State borrowing while receiving “cohesion funds” and NATO aid.
- 2001: Greece attains Eurozone membership
- Drachmas converted to Euros
 - Interest rates fall; credit expands
- 2010: New PM George Papandreou
- Reveals state owes \$410 billion (160% of GDP)
 - Global Recession worsens economy, unemployment rises to 20% (50% for youth)
 - EU/ECB/IMF “Troika” steps in
 - Bailout deal means austerity and numerous structural reforms
- 2014: Signs of inversion
- Primary surplus
 - Successful bond issuance
 - But unemployment still very high



This data for this chart on competitiveness was provided by the European Commission.



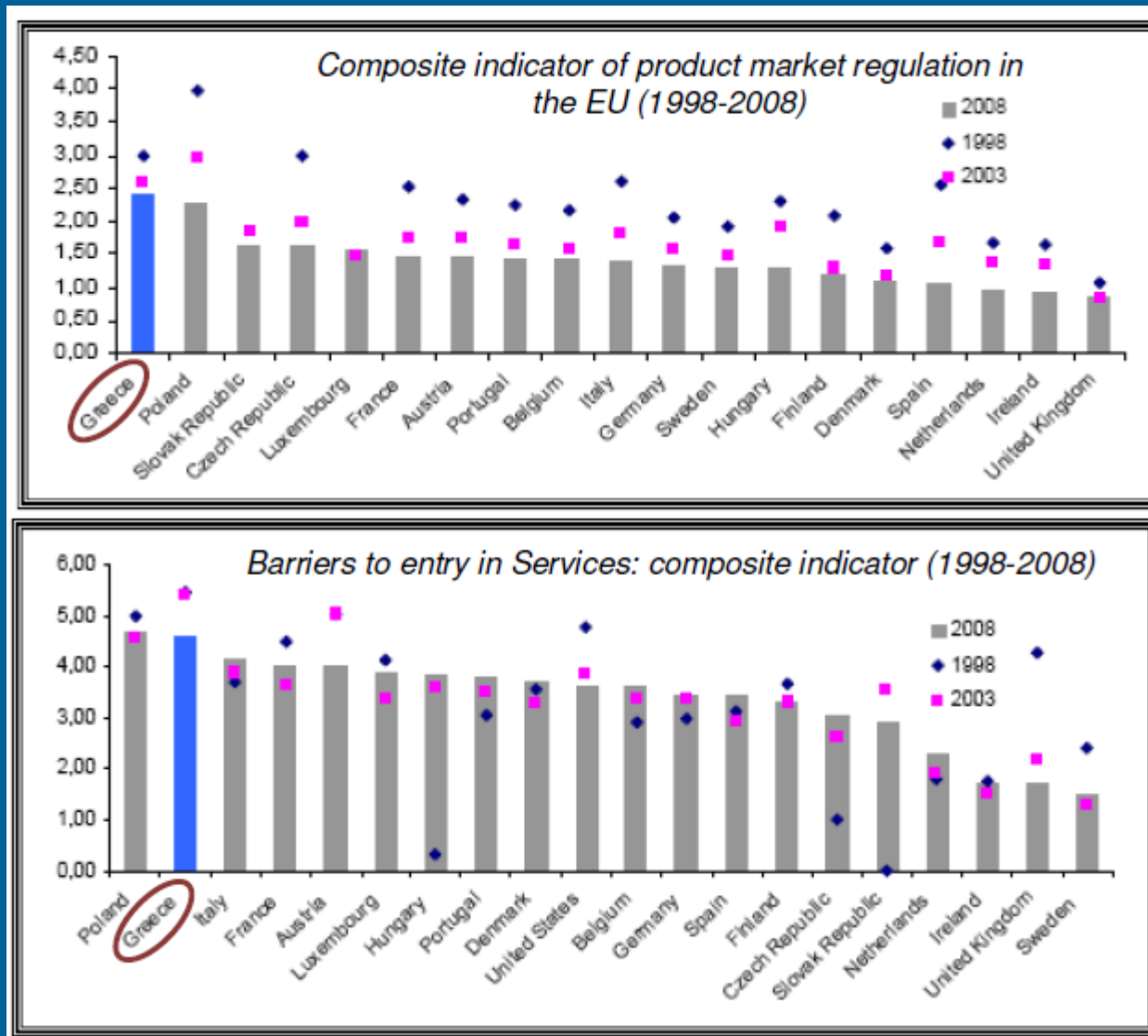
Greek business environment

Long-term issues preceding crisis:

- Cumbersome, anti-business **commercial law system**
- **Regulations** that protect vested interests from competition
- High legal and **administrative fees**
- Expensive, paternalistic **labor protections**
- Inefficient **state-owned enterprises**: sap market competitiveness
- Unclear **environmental rules**: stymie major investment
- High **tax rates**: high rates of tax avoidance and evasion



OECD Product Market Regulation

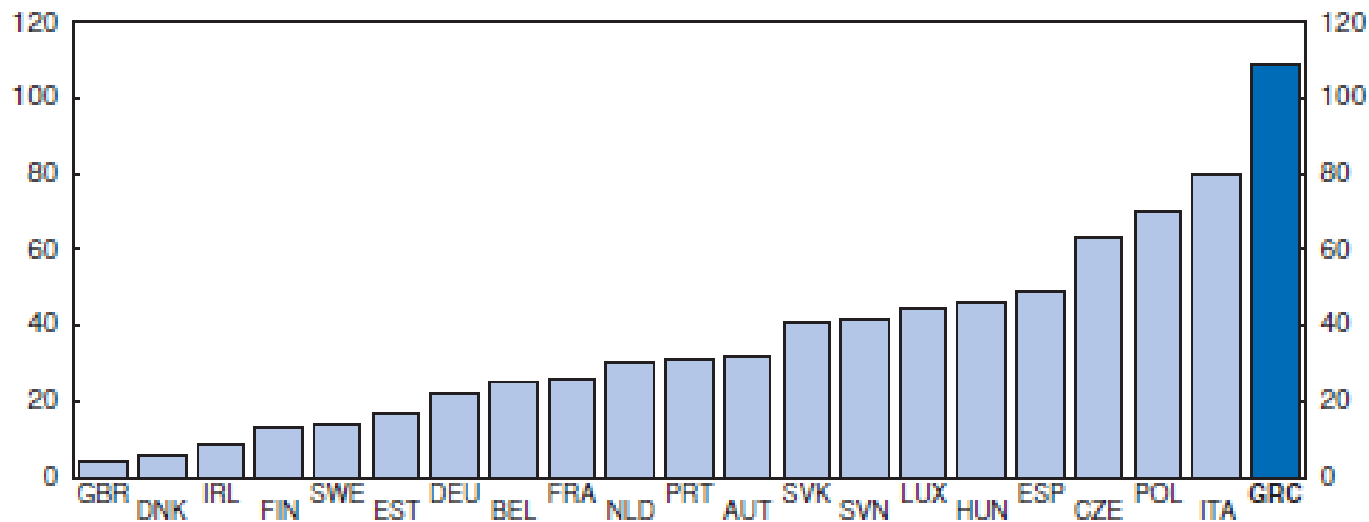




World Bank: Ease of Doing Business

Barriers to business remain

Overall "Ease of Doing Business" rank of 183 economies¹, 2011



1. Overall "Doing Business" indicator of the following sub-indicators: Starting a Business, Dealing with Construction Permits, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business.

Source: World Bank (2010), *Doing Business 2011: Making a Difference for Entrepreneurs*.



Excessive regulatory burden

SEV (Hellenic Federation of Enterprises) (2014) on law “production” (1975-2005) [see also OECD (2011)]:

+ 3,430 laws

+ 20,580 presidential decrees

+ 114,905 ministerial decisions

+ 24,010 regional decisions

+ 8,575 decisions of municipal authorities

= 171,500 new regulations

i.e. 5,716 regulations per year or 477 per month!



The OECD-Greek competition assessment project

- Screen laws and regulations in four key sectors to identify unnecessary restrictions to competition and propose changes:
 - Building materials
 - Tourism
 - Food processing
 - Retail trade
- Use OECD's Competition Assessment Toolkit as a base
- Key results:
 - OECD report
 - Assessment of competition restrictions in laws and regulations
 - Quantify benefits of reform, where possible
 - Recommendations, including required changes to laws and regulations
 - OECD assistance in building up the competition assessment capabilities of the Greek administration to measure competition burdens
- Co-operation with Hellenic Competition Commission and ministries, including lead Ministry of Competitiveness and Development
- Co-financed by Greece and the European Union, European Social Fund





Why does this matter?

➤ Economic Reasons

- International indicators point towards the **loss of competitiveness** of the Greek economy during the last two decades
- **Competition** tends to drive firms to become more **productive**
- Increasing productivity is the **key to growth** and a return to international competitiveness
- The additive effects of pro-competitive reforms across multiple sectors can be **large economic gains**



Project stages

Stage	Task	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
1	Sector definition and mapping of legislation											
2	Evaluation using the competition assessment checklist											
3	Analysis of the harm to competition											
4	Formulation of recommendations and draft report for comment and review											
5	Incorporation of feedback and finalisation of report for publication											
6	Publication of report (27 November)											



Stage 1: Sector definition and mapping of legislation

- Sector definition
 - Building materials, Food processing and Retail by NACE v2
 - Tourism: Activities under the (exclusive or concurrent) remit of the Ministry of Tourism and activities explicitly classified as 'touristic' as per the applicable legislation.
- Total Numbers of **regulations collected:**
1053



Stage 2: Evaluation using the competition assessment checklist

Work process

- **Screening** of the legislation
- Interviews with **Secretaries General**
- Ministerial **experts** participated in screening
- **Market** interviews
- **Research** into economic literature and case studies



Regulations for in-depth assessment



Stage 2: Evaluation using the Competition Assessment Checklist

A **YES** answer to any of the four questions would signal a competition concern: Do the regulations limit the

- *number or range of suppliers?*
- *ability of the suppliers to compete?*
- *incentives for the suppliers to compete?*
- *choices or information available to the consumers?*



Stage 2: Evaluation using the competition assessment checklist

Out of all screened pieces of legislation (662) we excluded cases (145) of:

- Specific public policy objectives (e.g. Casinos)
- State income from exploitation of natural resources (e.g. levies on fish auctions)
- Social policy (e.g. street markets licensing)
- Harmonised with EU legislation
- Taxation
- Administrative burdens



Stage 3: Analysis of the harm to competition

Tools of analysis (qualitative and quantitative)

- Policy **objective**
- **Comparative** research + International experience
- National and European **jurisprudence**
- **Economic** analysis
- Econometric and **data** analysis



Stage 3: Regulations analysed

	Food processing	Retail trade	Building materials	Tourism	Horizontal legislation	Total
Recommendations made	54	129	32	76	38	329
Administrative burden	1	15	1	19	4	40
No recommendations for change	45	66	13	37	25	186
Total	100	210	46	132	67	555

329 recommendations out of 555 pieces of legislation



Stage 3: Restrictions analysed in retail trade

- Restrictions on establishment and operation of **pharmacies**
- Distribution and price restrictions on over-the-counter (**OTC**) substances, food supplements and vitamins
- **Fees on advertising**
- **Operation hours** restrictions
- Resale price maintenance for **books**
- **Sales**, promotions and offers
- **Street markets** and outdoor trade
 - reduced variety of products (not allowed to sell dairy products/meat); preferential treatment of some suppliers; arbitrary provisions; co-regulation; barriers to entry
- **Fuel** - retail
 - barriers to entry; restrictions on economic activity and business; administrative burden
- **Detergents**
 - high cost and administrative burden due to the notification system of each detergent entering the market



Stage 3: Restrictions analysed in building materials

- Mines and quarries
 - Determination of **minimum and maximum area** for exploitation of marble quarries
 - Fixed rent per acre or/and per selling price of materials
 - Notification of pricelists and information on output
- Non-**harmonisation** of Greek technical standards with the equivalent EU standards
- Cement
 - Obligation to own dispatching centres located in Greece for bulk or cement in big bags
 - Obligation for **minimum capacity** of silos
 - Fee imposed in favour of the pension fund for cement industry employees
- Sea transportation of chemicals and paints
 - Smaller maximum quantities of hazardous substances allowed to be transported by ferry passengers in comparison to the IMDG
 - Fewer maximum number of transporters allowed to transport the above hazardous substances by ferry passengers in comparison to the IMDG
- Restrictions from other national legislation
 - Restrictions on the **capacity of the tanks** in which asphalt is stored
 - Minimum share capital for companies trading asphalt



Stage 3: Restrictions analysed in tourism

- Minimum requirements for some types of touristic infrastructure (e.g. car-racing tracks, conference centres)
 - increase barriers to entry; intervene in investor assessment of business opportunity; limit the range of suppliers
- Various instances of price approval, notification, requirement to keep prices fixed
 - price rigidity; incentive to submit high prices; low transparency; inefficient market allocation
- Notification of prices to trade associations
 - potential for co-ordinated practices
- Separation of services aimed at tourists (e.g. cruises, buses) and regular transportation services
 - may restrict the range of suppliers and consumer choice
- Minimum requirements for some businesses
 - barriers to entry; restrict potential competitors
- Limits the ability of some suppliers to compete
 - reduce competition; restrict consumer choice



Stage 3: Restrictions analysed in food processing

- Dairy industry
 - **Shelf life limits**; limits on consumer choice; no incentives to import.
- Bakeries
 - **Strict definitions**; limits on consumer choice; increased production cost
- Code of Food and Beverages
 - Obsolete provisions; narrow definitions on certain food products; **limits on the variety of products**
- Meat industry
 - Administrative burden; administrative costs on licensing



Stage 3: Restrictions analysed in horizontal legislation

- **Licensing** / Establishment
 - different treatment between incumbents and new entrants (particularly in Attiki)
- **Geographical criteria** for retail shops
 - discretionary power to local authorities
- **Logistic centres**
 - proximity rule & minimum surface rule

Transportation / Logistics

- Transport companies before L. 3887/2010 →
 - differential treatment vis a vis new entrants (car park)
 - L. 1959/1991 in contrast to the L. 3887/2010

Urban Planning

- **Change in land use** for established industries
 - imposition of special conditions for operation in same area
- **Expansion of existing facilities** already operating for at least three years
 - subject to more favourable terms



Stage 4: Formulation of recommendations and draft report

Recommendations by type of restriction



Abolish obsolete regulations

- Restrictions that have been superseded by more recent legislation but have not been explicitly removed from the body of legislation
 - Kiosks

- Restrictions that are outdated or not in force
 - Centres for foreigners' tourism
 - Requirements to hold stocks of oat in bakeries
 - Restriction on selling apple vinegar
 - Obligation to sell metallic minerals to Greek-based industries
 - Compulsory lease of a mine to Greek industries in case exploiter of the mine denies supplying industries with raw materials
 - Provision to enforce the production of pasteurised milk



Abolish barriers to entry

➤ **Asphalt**

Restrictions to obtain the licence to trade asphalt

- a) minimum share capital of 800 000 EUR
- b) minimum storage place of 2,000 m²

➤ **Blends of olive oil**

with other virgin oils cannot be produced and sold by Greek producers for the domestic market

➤ **“Fresh” milk**

has a maximum shelf-life of 5 days

➤ **Tourism**

Special requirements for investment in several different tourist activities such as car racing tracks, entertainment theme parks, centres of athletic and coaching tourism

- Pre-existence of high quality accommodation in nearby locations
- Must be located near airports



Abolish price regulations

- **Requirement to keep prices stable for long periods**
 - Speed boat instructors – have to keep their fees unchanged for at least 12 months
 - Water sports such as jet ski rental – cannot change their prices for 12 months after submitting them to the local port authority
- **Price approvals and notifications**
 - Tourist accommodation (hotels, furnished apartments, villas, rooms to let), therapeutic tourism (springs, spas), mountain shelters, sea leisure activities, tourist businesses, marinas, recreational vessels
- **Retail price maintenance in books**
 - Publisher determines the wholesale price and sets the retail price for 2 years
 - Restrictions apply to reprints, re-editions and e-books



Abolish levies

➤ Advertising fee

- Restriction: 20% for the press, 21.5% for TV and radio+ 2% municipality

➤ Bakeries – levy on purchases of flour

- Restriction: 0.016 per kg

➤ Cement

- Restriction: 2% on the sale price (produced or imported) in favour of the Subsidiary Pension Fund of the Employees in the cement industry



Synthesis of positive effects quantified by item = 66 provisions out of 329

Issue	Benefit	Number of provisions affected	Value, EUR m
"Fresh" milk	€33m (consumer benefit/year))	2	33.0
Levy on flour	€8m-11m (value of levy/year)	1	8.0
Sunday trading	30 000 new jobs	3	
Sunday trading	€2.5bn (annual expenditure)		2 500.0
Sales and discounts	€740m (annual turnover)	9	740.0
OTCs	€102m (consumer benefit/year)	23	102.0
Marinas	€2.3m (annual turnover)	10	2.3
Cruise business	€65m (annual turnover)	4	65.0
Advertising	€1.8b (consumer benefit/year)	14	1 800.0



Legislative change follows recommendations

- **Omnibus legislation** passed by Parliament at the end of March 2014
 - 80% of OECD recommendations reportedly addressed in Greek legislation
 - Strong support and leading of reforms within government and parliament by Minister Hadzidakis of Ministry of Development and Competitiveness
 - EU, ECB and IMF reportedly required passage of OECD recommendations as condition for release of tranche
 - Monitoring of implementation by relevant ministries still essential



THE REGULATION OF “FRESH” PASTEURISED MILK



Milk regulation in Greece and EU

Greek regulation

- 1959: fresh = 2 days
- 1988: fresh = 4 days
- 1999: fresh = 5 days, only country in the EU

EU regulation

Based on EU regulation there are two types of milk:

1. Pasteurised milk
2. Ultra high temperature (UHT)

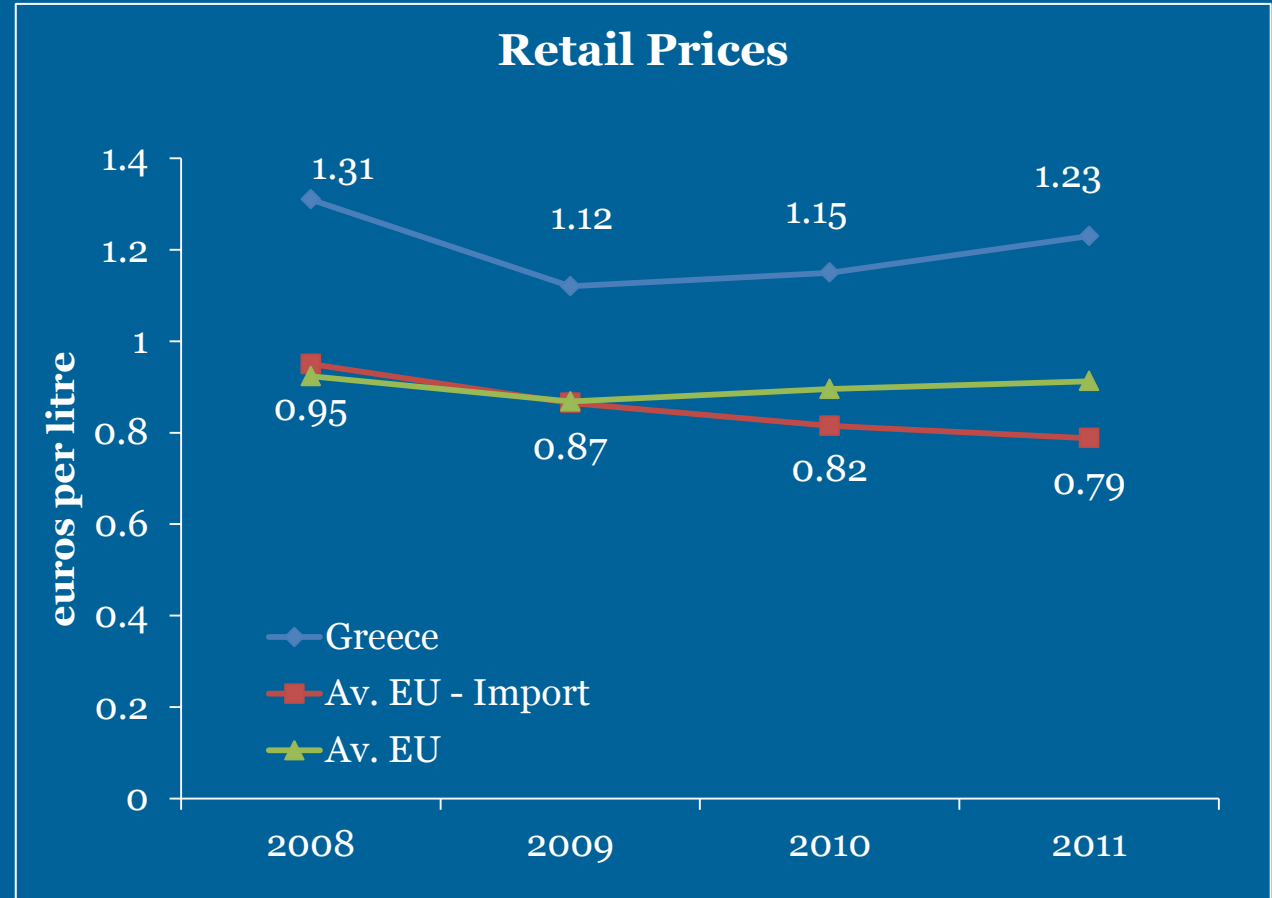
“Pasteurisation is achieved by a treatment involving:

- i. a high temperature for a short time (at least 72 ° C for 15 seconds);
 - ii. a low temperature for a long time (at least 63 ° C for 30 minutes); or
- any other combination of time-temperature conditions to obtain an equivalent effect.”



One of the most expensive retail prices for fresh milk across EU

	2011
Italy	1.46
Cyprus	1.3
Switzerland	1.28
Luxembourg	1.27
Greece	1.23
Ireland	1.11
Romania	1.03
Bulgaria	0.94
Austria	0.93
Hungary	0.86
Slovakia	0.85
Lithuania	0.84
Finland	0.83
Czech Republic	0.82
United Kingdom	0.82
Spain	0.8
Malta	0.79
Slovenia	0.79
Turkey	0.79
Portugal	0.78
Germany	0.7
Poland	0.69
Iceland	0.66
The Netherlands	0.65

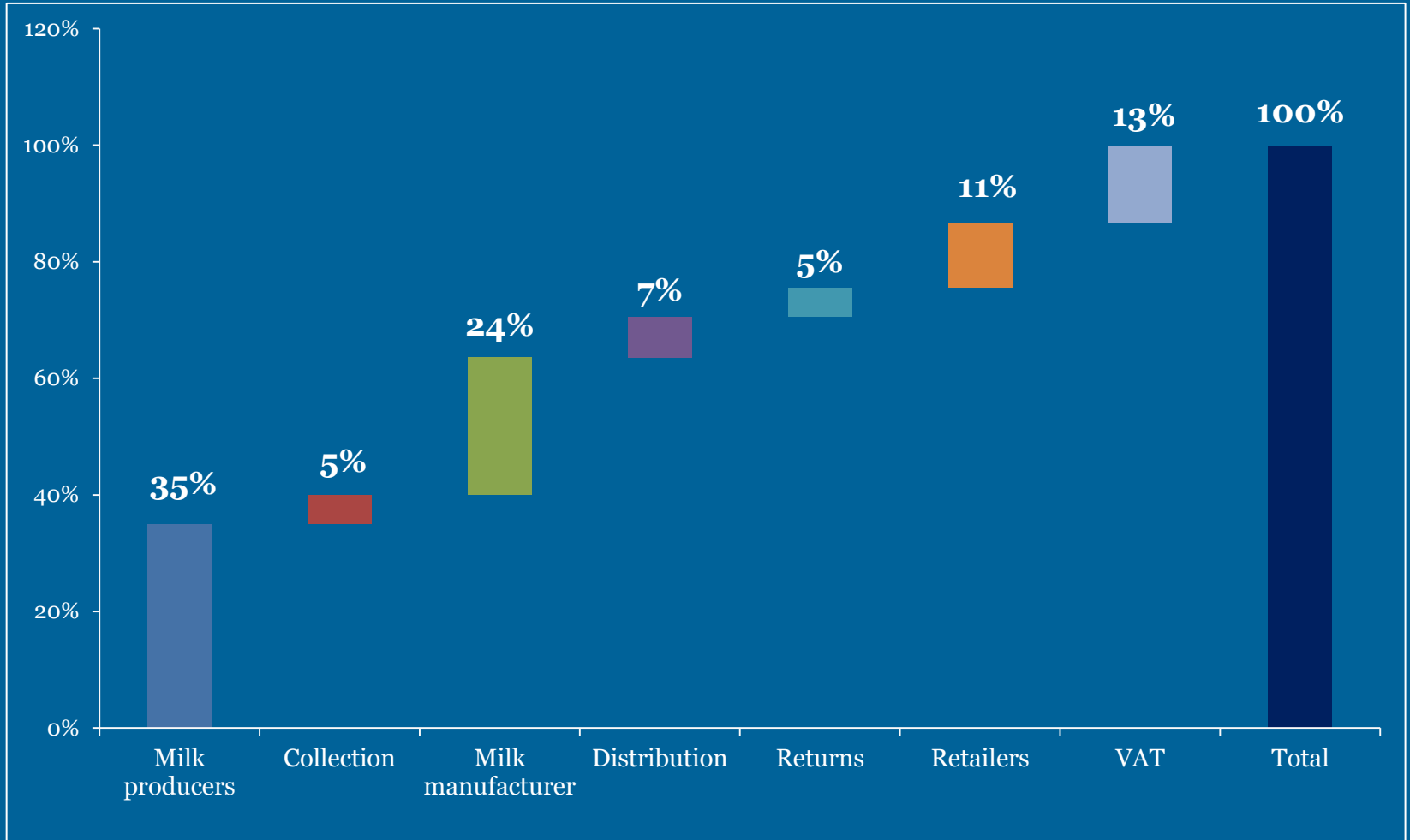


Source: Consumer Price Research, European Commission

Note: Price of fresh pasteurised unskimmed 1lt milk. Average EU – Import is the average of countries from which Greece imports milk: France, Germany, Holland, Spain, Hungary, Austria



Cost breakdown for branded fresh milk

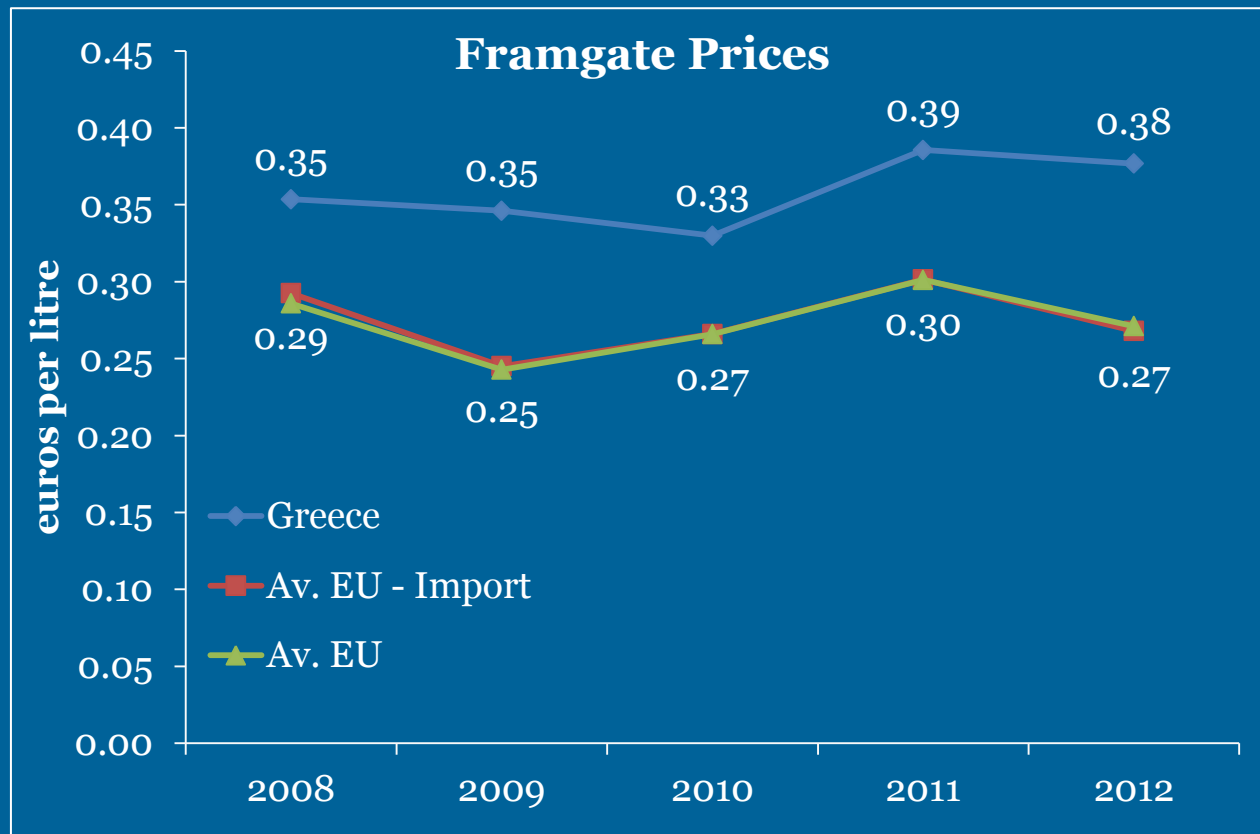


Source: Various industry sources



One of the most expensive farmgate prices across EU

	2012
Cyprus	0.44
Greece	0.38
Finland	0.37
Italy	0.31
Austria	0.28
Denmark	0.28
The Netherlands	0.28
United Kingdom	0.28
Ireland	0.27
Germany	0.27
France	0.27
Luxembourg	0.26
Spain	0.26
Portugal	0.26
Bulgaria	0.25
Belgium	0.25
Slovenia	0.25
Estonia	0.25
Hungary	0.25
Czech Republic	0.25
Slovakia	0.25
Poland	0.24
Latvia	0.23
Romania	0.23
Lithuania	0.22



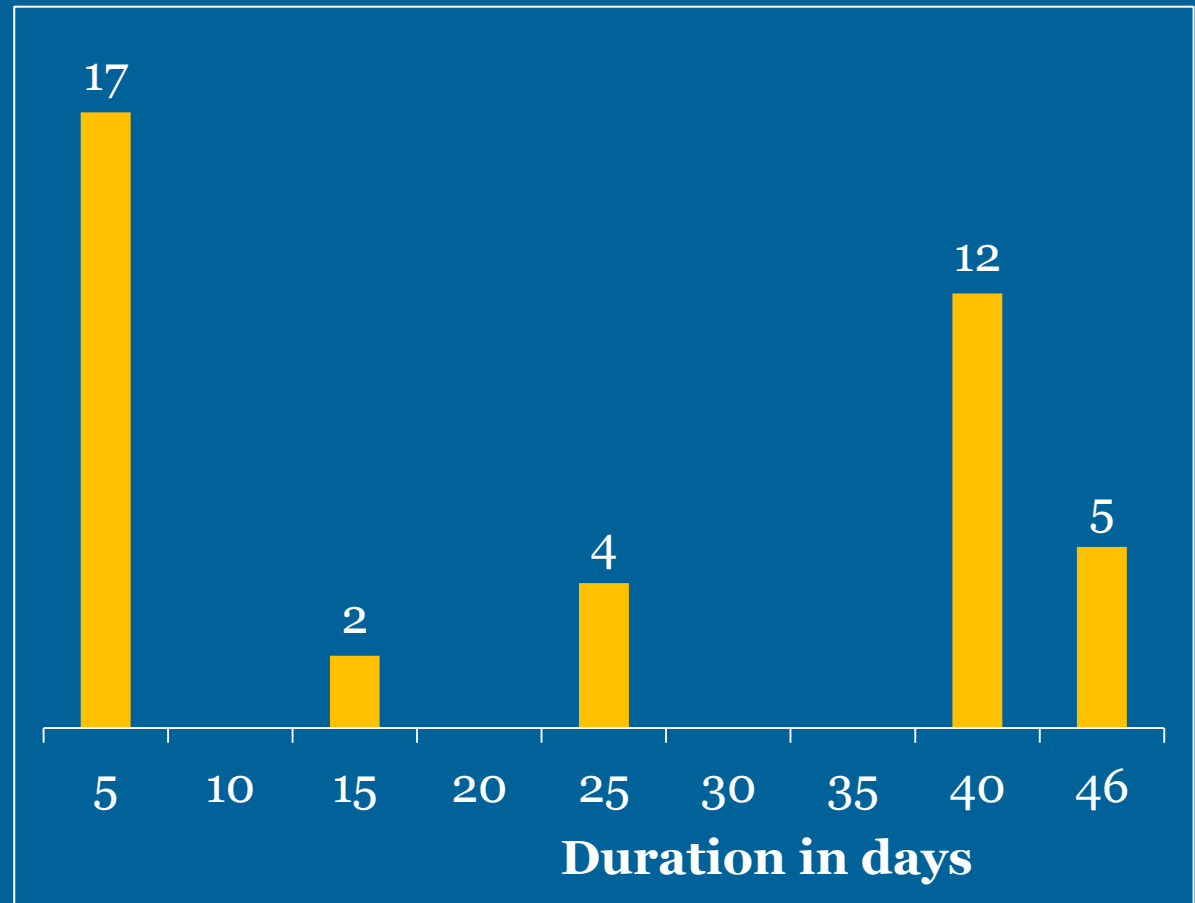
Source: DG Agriculture

Note: Average EU – Import is the average of countries from which Greece imports milk: France, Germany, Holland, Spain, Hungary, Austria.



Mind the gap: very few products between 5 and 40 days

- Milk producers follow maximum differentiation and separate their products
- Big gaps in the market: no product between 5 and 15 days
- In most other EU countries most common duration is 10-11 days



Source: E-prices, Ministry of Development



Recommendations and Benefits

Recommendation: drop the 5-day restriction, harmonise Greek legislation to EU

- ✓ Ability to import cheaper milk from EU
- ✓ Significant cost savings
- ✓ Increased competition for local farmers, need to invest to become more efficient
- ✓ More time for small farms to reach big urban areas
- ✓ More choice for retailers, more competition



Reform losers?

- Re-allocation: unproductive farms will close, others will increase in size
- All milk imported? NO!
 - Strong consumer preference for Greek milk, all branded high pasteurisation milk is Greek
- Will retail prices increase? NO!
 - Demand: higher duration, higher prices (2-15%)
 - Supply: higher duration, lower prices (44-65%)
- Will variety decrease? NO!
 - Current product distribution highly skewed, freedom to offer any product meets demand



The consumer harm from regulation in Greece is estimated at approx EUR 33m p.a.

Impact on
prices from
cost reduction
on product
returns



Impact on
prices from
new products
and more
imports



Impact on
prices from
increased
internal
competition

Size of
market: EUR
310 million



Consumer
harm*:
EUR 33 million

*Note: Consumer benefit estimates based on: $CB = \left(\rho + \frac{1}{2}\epsilon\rho^2\right)R_r$, where ρ is the percentage price change (estimated at 10%), R sector revenue in 2011 and ϵ the demand elasticity (estimated at 2.1%).



APPENDIX



HELLENIC
COMPETITION
COMMISSION



OECD

BETTER POLICIES FOR BETTER LIVES



Detailed product level data from e-prices (2010-2012)

✓ High
pasteurised
milk more
expensive =
consumers
value milk
duration

✓ Higher
variance
due to
higher
product
variety
(enriched,
child)

	mean	median	min	max	sd
Fresh Milk (overall)	1.20	1.15	0.75	1.58	0.20
Private Label	0.85	0.86	0.77	1.02	0.05
Branded	1.22	1.18	0.75	1.58	0.18
High pasteurised (overall)	1.38	1.46	0.72	2.35	0.21
Private Label	0.86	0.87	0.72	0.94	0.05
Branded	1.42	1.47	0.79	2.35	0.15

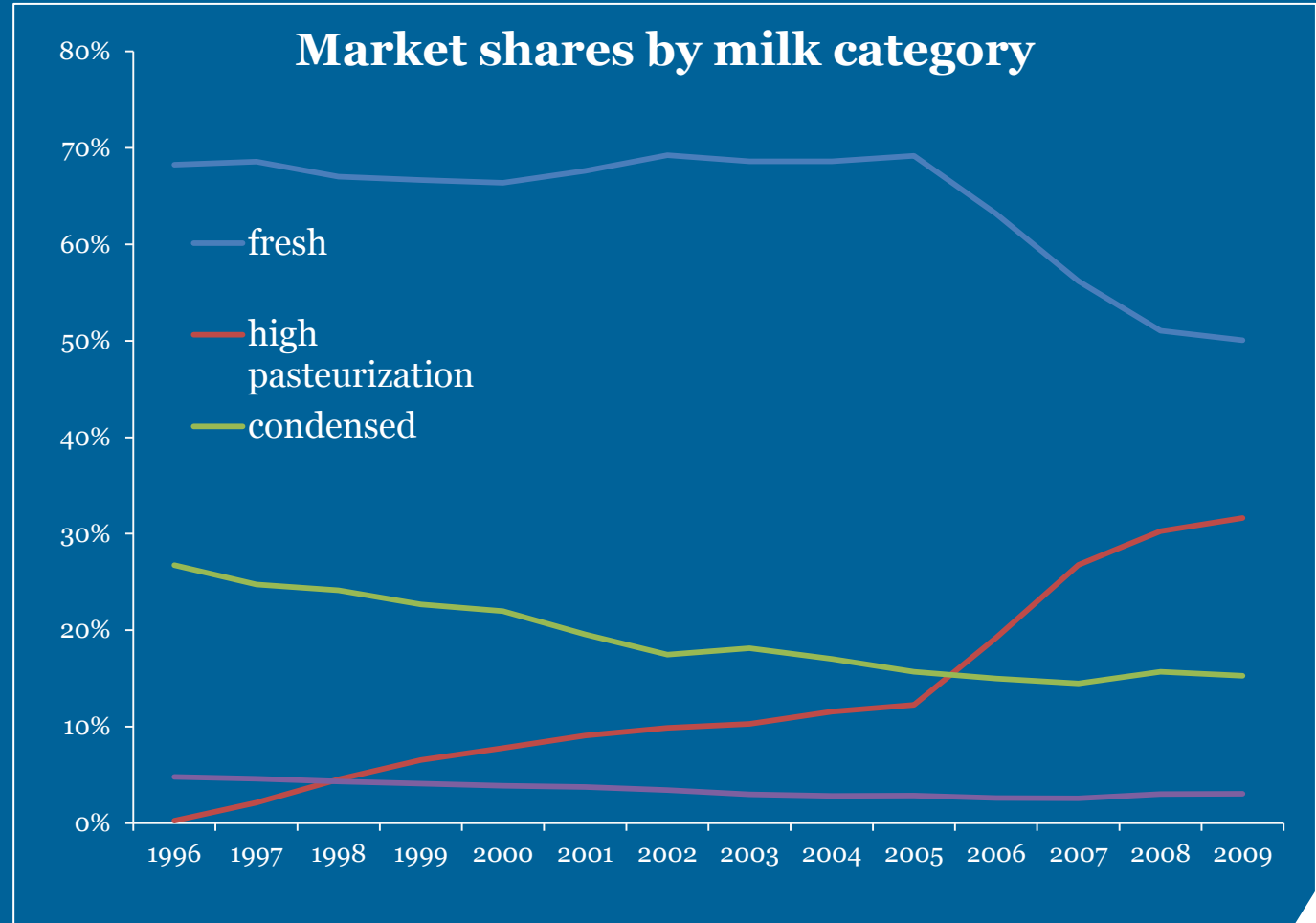
Source: E-prices, Ministry of Development

Note: Chocolate milk excluded from high pasteurised products



Market trends in Greece

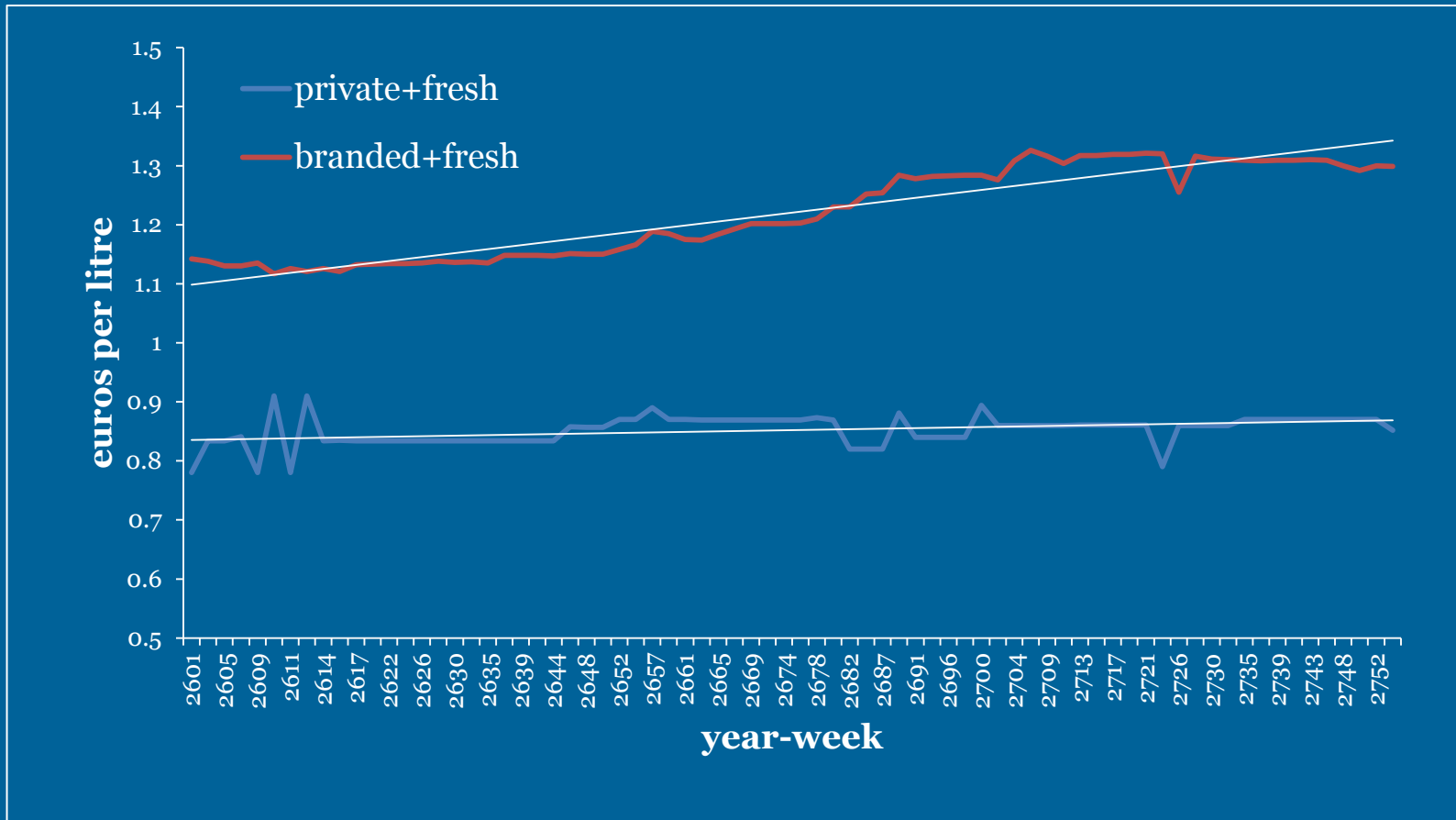
- ✓ Big increase in consumption of high pasteurised milk
- ✓ All branded high pasteurised products use Greek milk
- ✓ Strong increase in private label product (~13% market share in 2011)



Source: ICA



High and increasing difference between “fresh” branded and un-branded milk



Source: E-prices, Ministry of Development



THE REGULATION OF SUNDAY OPENING



The shops are closed on Sundays, with a few exceptions



The council of a prefecture can extend the opening hours, after consultation with the employer and employee organisations.

Source: Law 3377/2005 (Article 12)



The restriction can lead to reduced availability, flexibility, productivity and increased prices

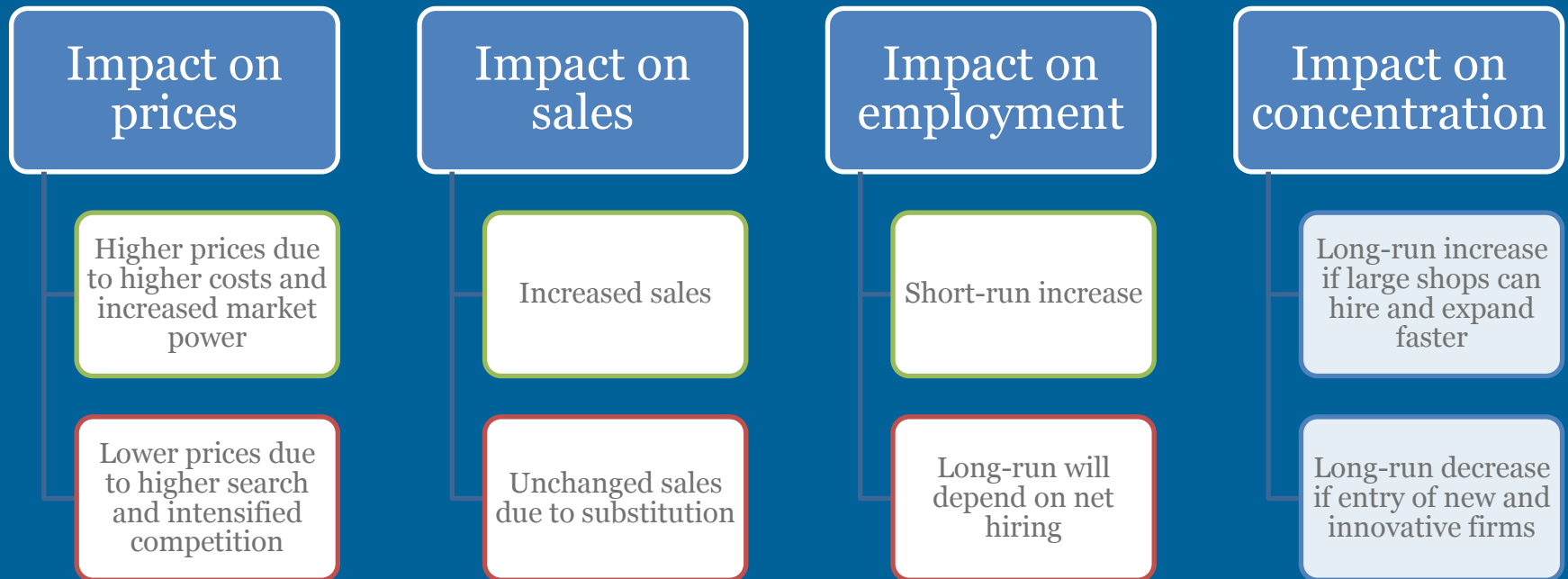
Objectives of the law

- Get some rest
- Protect small businesses
- Protect employees
- No conflict with religious obligations





International experience





We empirically assess the international experience on this regulation

The two indicators are strongly correlated (70%-75%).

OECD Product Market Indicator – Regulation of Shop Opening Hours¹

6 – Regulated at
national level

4 – Regulated at
local level

0 – Not regulated

New indicator

6 - Shops are not allowed to open on Sundays.

5 - Shops can only open for a few Sundays
each year.

4 - Varies across parts of the country,
depending on local regulation.

3 - Large shops can open every Sunday, but
only for a limited number of hours.

2 - No restrictions in major cities and tourist
destinations.

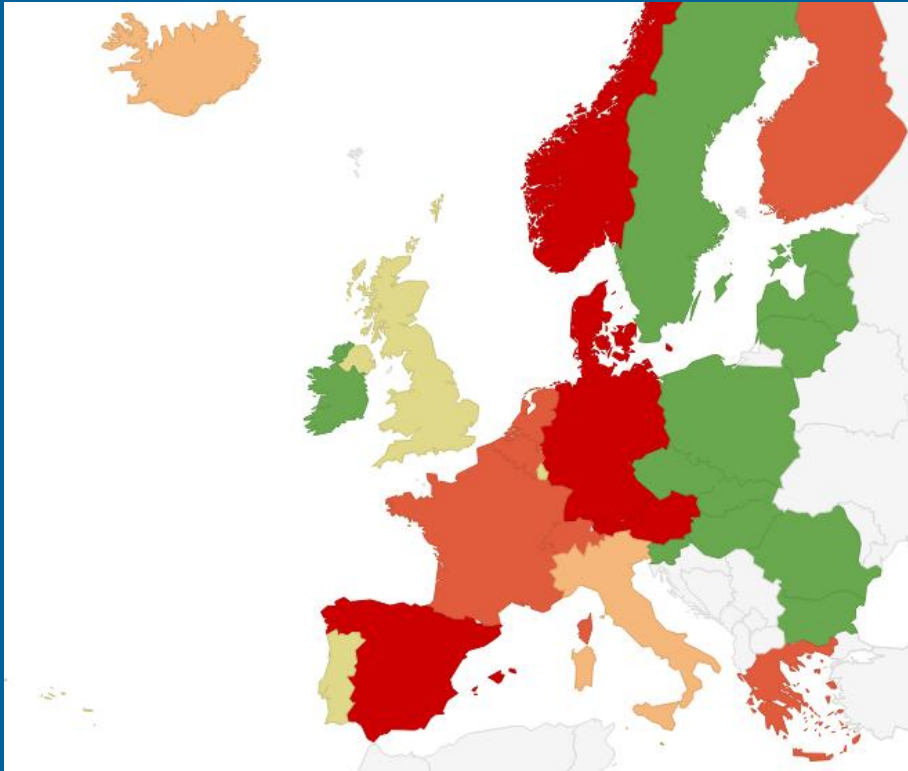
1 - No restrictions on Sunday opening.

¹Source: Conway, P. and G. Nicoletti (2006), "Product Market Regulation in non-manufacturing sectors in OECD countries: measurement and highlights", OECD Economics Department Working Paper No.530.

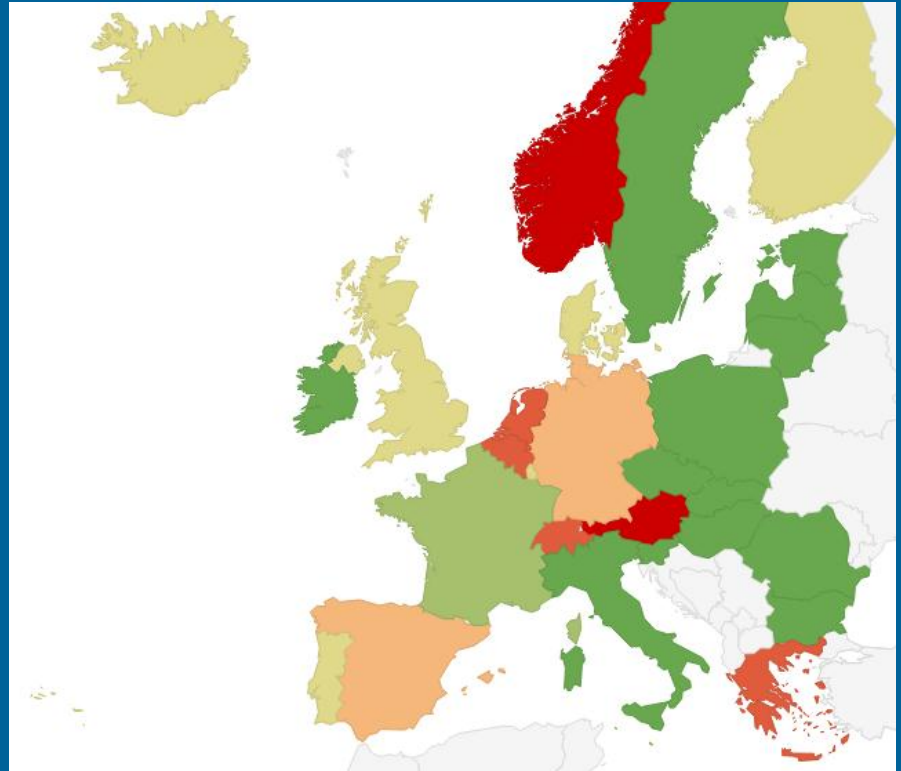


Over the past decade several European countries liberalised their opening hours legislation

1999



2011



Legend:  Liberalised  Restricted.



Examined empirically the impact of opening hours deregulation on prices, real expenditure and employment

- Eurostat (2012), panel data, covering:
 - 30 European countries (EU-27, Norway, Iceland and Switzerland)
 - From 1999 to 2011
- Variables:
 - Price level indices (EU27=100)
 - Real expenditure per capita (in PPS_EU27)
 - Real Gross Domestic Product per capita (proxy for income)
 - Number of persons employed
- Products:
 - Food
 - Clothing and footwear
 - Household furnishings, equipment and maintenance
- Retail sectors:
 - Non-specialised stores (i.e. supermarkets)
 - Food, beverages and tobacco stores
 - ITC equipment stores
 - Other household equipment stores
 - Stores for cultural and recreation goods
 - Other specialised stores

Methodology

We use a Difference in Difference methodology where we compare the evolution of prices (or expenditure) in countries that experience a change in regulation to the evolution of prices (or expenditure) in countries that did not experience any change during our sample (1999-2011).

$$\ln Y_{jct} = \alpha_{jc} + \alpha_t + \beta_1 (SR)_{ct} + \gamma Z_{ct} + \varepsilon_{jct}$$



Empirical Results

- Prices: no significant impact on price growth indices
- Sales: expenditure increases, particularly in the food sector; only weak evidence on substitution across segments
- Employment: positive and significant impact in 9/16 sectors, only 3 negative; increase in 5 even when controlling for the number of firms
- Concentration: number of firms increases in 8/16 sectors, only 2 negative effect



Benefits from deregulation

Impact on
employment



30 058 new jobs

Impact on
expenditure



EUR 2.5 bn

Proposals

1. Experiment by relaxing Sunday regulation in randomly selected towns and measure the effects
2. Relax Sunday trading restrictions by allowing ALL firms to operate freely from 11:00 until 20:00



Thank you

The presentation material used here has been prepared with the input of the members of the Greek OECD project team, including Federica Maiorano, Senior Economist and Ania Thiemann, Project Leader and Economist, Christos Genakos, Economist and others and from the Hellenic Competition Commission, including Dimitri Loukas, Vice President, Fotis Papadopoulos, Economist, and others. Full acknowledgements are found in the report itself.

www.oecd.org/daf/competition

