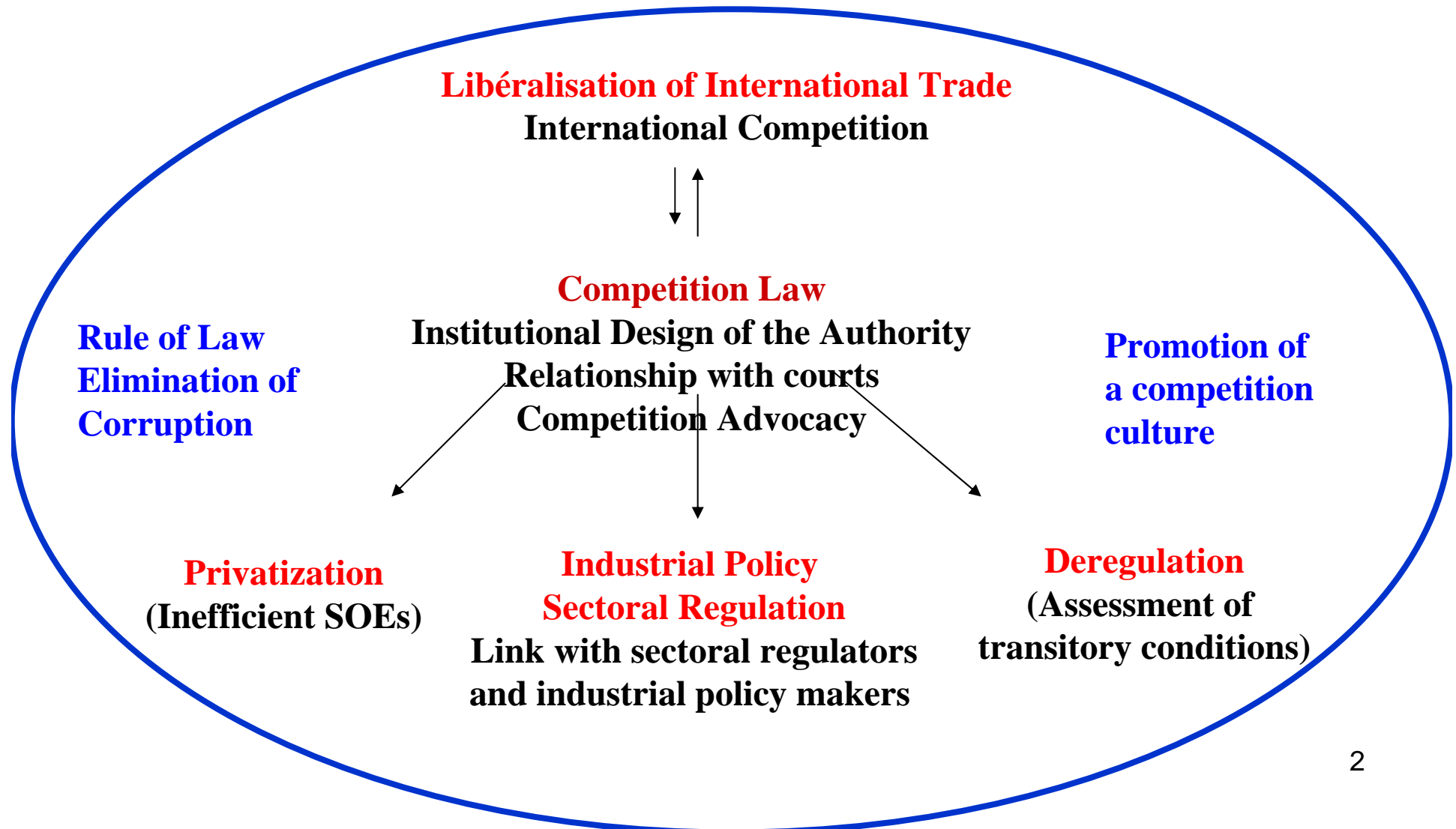


Responses to the Financial and Economic Crisis and Competition policy

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Responses to the Crisis
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Competition Policy



Responses to the crisis

1) Restoring confidence in the financial sector

- 1) -injections of large amounts of liquidity into financial markets;
- 2) -guarantee scheme covering new issuances of short and medium-term debt to overcome a temporary liquidity shortage;
- 3) -**explicit government guarantee of financial institutions' liabilities** to restore confidence in the banks;
- 4) -regulatory capital forbearance, which allows banks to overstate their equity capital;
- 5) -**recapitalization measures for banks and insurance companies**, carving-out of insolvent banks' bad loan portfolios (usually accompanied by organizational restructuring of the banks);
- 6) -**restructuring of the banking and financial sector**

Responses to the crisis

2) Extending regulation in the financial sector

- **regulation on the structure of banks** to prevent them from being simultaneously present in different lines of business.
- regulation of **operators** such as hedge funds
- regulation of **instruments** such as CDOs , limits on the securitization of mortgages,
- stricter limits for the **recourse to off-balance instruments** to hide risky assets;
- changes in **accounting rules** for banking assets to avoid the pro-cyclical effect of the mark to market rules.
- **regulation of the financial incentives of bank managers and traders** (such as bonuses and stock options);
- **regulation of credit rating agencies,**

Recommendations of the G20 Finance Ministers and Central Bank Govs. to the London Summit

- all systemically important financial institutions, markets and instruments are subject to an appropriate degree of regulation and oversight, and that hedge funds or their managers are registered and disclose appropriate information to assess the risks they pose;
- **stronger regulation** is reinforced by strengthened macro-prudential oversight to prevent the build-up of systemic risk;
- financial regulations dampen rather than amplify economic cycles(...)
- strengthened international cooperation to prevent and resolve crises (...).

We have also agreed to: **regulatory oversight**, including registration, of all **Credit Rating Agencies whose ratings are used for regulatory purposes**, and compliance with the International Organisation of Securities Commissions (IOSCO) code; **full transparency of exposures to off balance sheet vehicles**; the need for improvements in accounting standards, including for provisioning and valuation uncertainty; **greater standardisation** and resilience **of credit derivatives markets**; the FSF's sound practice principles for compensation; and the relevant international bodies identify non-cooperative jurisdictions and to develop a⁵ tool box of effective counter measures.

Responses to the crisis

3) Preventing the extension or the deepening of the economic crisis in the real sector.

1) **Stimulus packages to stimulate demand** and confidence, and to **boost long-term competitiveness.**

- direct aid to ailing business firms;
- subsidized interest rate;
- sectoral aid designed to boost demand in specific sectors.

2) **Discriminatory conditions** in fiscal stimulus packages to prevent international seepage.(ex “Buy American” procurement rules)

3) **Other protectionist policies**

- custom duties increases in developing countries (Ecuador)
- subsidies to troubled industries in developed countries

(Automobile in US/EU)

- antidumping actions (US)
- restrictive labor policies (Malaysia, UK debate)
- non tariff barriers (Indonesia, India, China)



"Stop! Wait! Government's no longer the problem—it's the solution!"

Possible toxic effects of policy responses

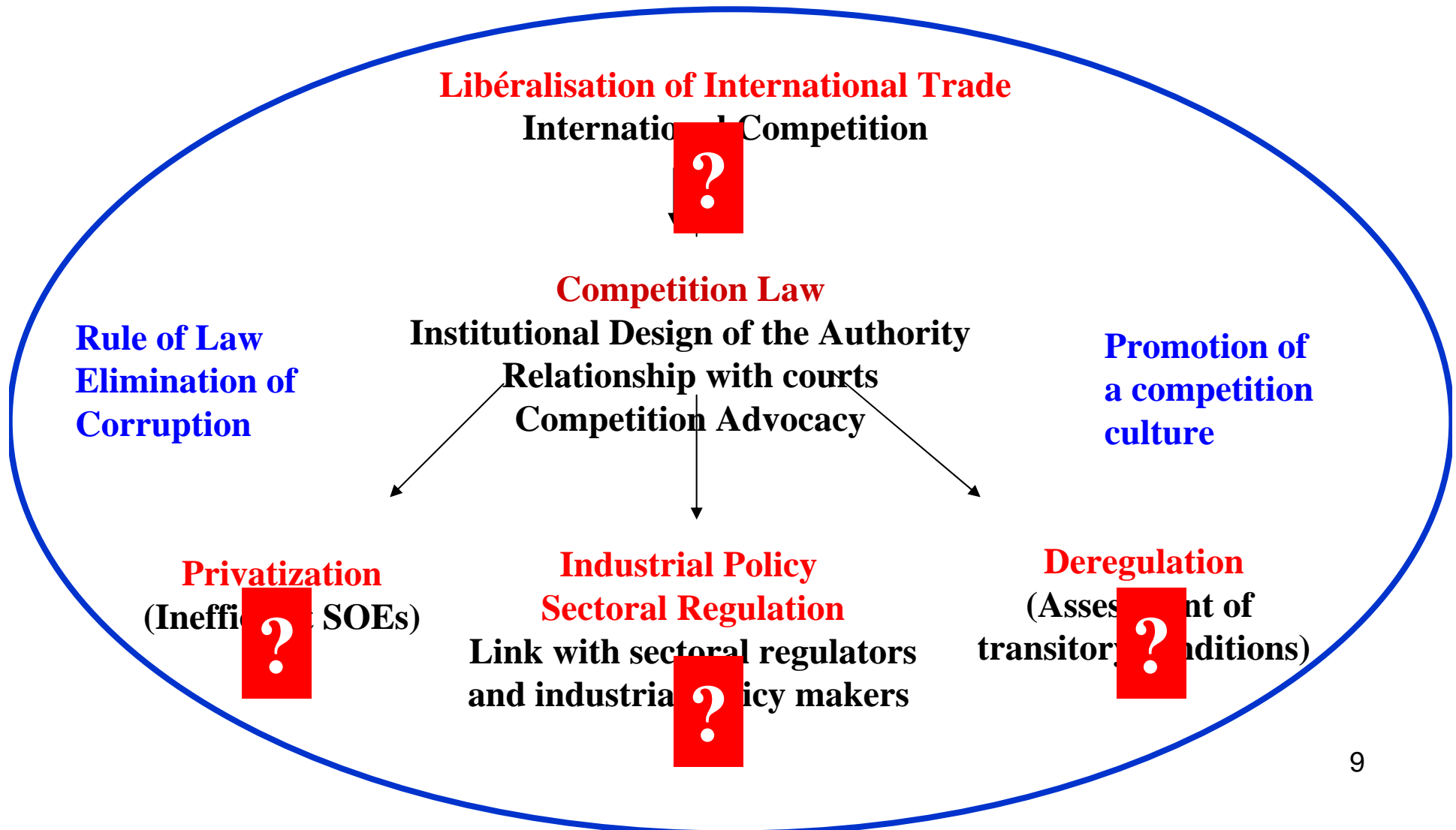
-**Fiscal stimulus** plans are often discriminatory (and therefore anticompetitive) explicitly or implicitly. They often are aimed at domestic firms (ex subsidies for **Airbus buyers, cars for clunkers** etc...)

-**Bail out** plans, recapitalizations etc ... often give a market advantage to some firms to the detriment of others (ex: allegations over **AIG, Northern Rock** etc....)

-**Regulations** can distort incentives or competition and prevent innovation:“(...)to bridle financial intermediation with heavy regulation (...) would stifle advances in finance that enhance standards of living” (Alan Greenspan, Wall Street journal Thursday March 12 2009) (distorsion of incentives, alternatives with different implications for competition ex **bonuses, credit rating agencies, structure of banking**)

--**Protectionist policies**

Two issues: consistency of policy and role of antitrust



Role of competition authorities in assessing the anticompetitive effect of policy responses

-Singularity of the EU model

- Competition is protected by the Treaty

- Response to the crisis is largely in the hands of the Member States

- The Commission has a mandate to apply competition law to Member States interventions

- But **lack of competition oversight over state actions in other jurisdictions** (ex statutory nature of the Sherman Act, State Action Doctrine in the United States)

- The **institutional model for competition authorities** developed in the nineties is **ill fitted to the current need for competition advocacy**

- And **focus on regulatory reform (OECD) needs to change to ex ante competition assessment** in a time of crisis

Saint Vulbas, France February 26 2009:

Speaking to automobile industry executives, President Sarkozy said that :

«he hoped that the European Commission would understand there are more important things to do than analyze the compatibility of State Aids with competition rules »

Policy responses to the crisis and competition: first recommendation

The first recommendation for governments is to achieve a greater co-ordination of fiscal stimulus schemes.

Lack of coordination between governments in their effort to revive demand leads to a desire by the countries which have the most ambitious stimulus packages to ensure that there will be no leakage to the benefit of countries with less ambitious packages. This pushes the former to include in their plans, or to add to their plans, protectionist measures which in turn lead to retaliation and the imposition of more trade or competition restricting measures.

Policy responses to the crisis and competition: second recommendation

It would be desirable for all trading nations to commit themselves to carry out transparent competitive impact assessment of all financial rescue packages, state aid plans to particular sectors or new regulations proposed as a response to the economic and financial crisis, prior to their implementation. The results of such assessments (and contributions to any public consultations undertaken) should be made immediately available to all the trading partners of the government contemplating the measures as a response to the crisis.

Such a commitment, would allow each government to be aware of the long term risks of the measures they consider, and by facilitating retaliation by these trading partners would discourage governments from adopting such measures.

Policy responses to the crisis and competition: third recommendation

The third recommendation is that world leaders **complete the Doha round of trade negotiations.**

A **reduction of tariff ceilings** is urgently needed when, as we have seen, governments are tempted to increase tariffs. A **stronger multilateral discipline over protectionist measures** is necessary at a time of economic recession. **Improving the safeguards mechanism** would reduce the temptation of governments to rely on antidumping measures. A **lower cap on agricultural and industrial subsidies** is required to give some breathing space to developing countries at a time when the demand for their raw materials or manufactured products is declining.

Thank you for your attention

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