

EXECUTIVE SUMMARY

ASSESSMENT OF SELECTED STRUCTURAL REFORMS REGARDING COMPETITION AND THEIR ECONOMIC IMPACT

The present report evaluates the process of enactment and implementation of specific structural reforms relating to competition, examines the resulting changes in the operation of the relevant markets, and assesses, to the extent possible, the effects on key economic aggregates (prices, employment, new entries). The legislative interventions considered in the study were part of Greece's reform programme and represented commitments of the country in the framework of the Memorandums of Economic and Financial Policies. The reforms were pursued, mostly, following recommendations of the OECD, and refer to the sectors of food processing (bakeries), retail trade (retail trade of baby milk, retail trade of dietary supplements and vitamins, and retail sales and offers) and building materials (distribution of cement/dispatching centres).

The report consists of five independent case studies, one for each of the economic activities examined. The selection of these activities was based on criteria such as the importance of the relevant products for consumers, specific population groups, and different business activities; their contribution to consumer expenditure and the general price level; and their potential impact on employment, economic activity and the number of entries in the market.

The methodology adopted includes four stages: the review of the legal framework before and after the adoption of the relevant legislative reforms; the assessment of the reforms by use of the OECD competition assessment toolkit; the compilation of tables recording the prior status of regulations as well as the changes resulting from the legislative reforms; and the assessment of the impact with respect to the entry and exit of businesses from the relevant sectors, the creation or loss of jobs, and the prices of the relevant products. With

respect to the impact assessment, the methodological approaches employed in the case studies varied, and were selected on the basis of the different types of reforms evaluated, the particular characteristics of the individual markets examined, as well as the availability of statistical data and information.

The main conclusions of the study are as follows:

Bakeries

The legislative framework defined by the omnibus Law 3526/2007 for bakeries was revised substantially during the period 2014-2015, to conform with recommendations 1, 2, 4, 5, 6, 8, 10, 11, 12, 14 and 18 of the OECD Competition Assessment Review. More particularly, the legislative reforms granted permission to bake-off businesses for the use of the terms/discretionary titles “baker”, “bakery”, or “oven”, and abolished a series of provisions concerning the restrictions on the sale of bread by food and beverage stores, the regulations on specified weights for bread and baked goods, the regulations concerning the stocks of bakery businesses, the regulations for the minimum dimensions of bake-off businesses and bread points of sale, certain grandfather clauses exempting old businesses from the provisions of Law 3526/2007, the compulsory levy in favour of the Bakers’ Supplementary Insurance Fund, and the regulations concerning the minimum capacity of bakeries in large cities. From the analysis of the legislative framework on the basis of the OECD competition assessment toolkit, the majority of these particular reforms appear to present potential benefits for competition. However, the analysis also identified two cases in which the provisions adopted induced problems: the first such case concerns the use of the terms/discretionary titles “baker”, “bakery”, or “oven” by bake-off businesses, and the second case refers to the adjustment of old bakers to certain provisions of Law 3526/2007, following the abolition of the relevant grandfather clauses.

With respect to the impact of the legislative reforms on the number of businesses, the data thus far available from the Structural Business Statistics and the Ministry of Finance are inconclusive. Regarding the possible effects of the reforms on employment, labour force survey data for the sector of manufacture of bakery and farina-

ceous products exhibit a rapid increase in employment during the period after the implementation of the reforms, thus pointing to a possible positive impact of the reforms on employment. However, a conclusion on such an impact cannot be safely drawn on the basis of these data, because the recovery of employment started approximately one year before the implementation of the reforms. With respect to prices, the impact on the price of bread and bakery products due to increases in the VAT and developments in wheat prices, combined with the negative pressures on the CPI due to the crisis, renders the isolation of price-effects that can be attributed to the reforms very difficult. To address this issue, the present report employs a variation of the shift-share methodology, to compare the actual evolution of the price of bread after the reforms, with a counterfactual evolution which follows the rate of change of a similar product (pasta). This analysis provided an indication of a positive impact of the reforms, in the sense of retention of the price of bread.

Retail trade of baby milk

Infant and follow-on milk formulas are products designed to satisfy the specific nutritional requirements of healthy infants (children under the age of 12 months). These products are regulated by national and EU legislation in order to ensure a high level of protection for infants' health.

The national law is harmonized with European Directives that lay down the requirements for the composition, labeling, minimum and maximum levels of ingredients, advertising and parental advisories. The National Organization of Medicines (EOF) is authorized for the notification and audit procedure. Until 2012, the exclusive supply of infant milk was through pharmacies. The supply channel of infant milk was liberalized after the implementation of ministerial decision Y1/ΓΠ.οικ.236 in 2012. After the reform, infant milk has been placed in pharmacies, on-line pharmacies and grocery retail stores.

The abolition of the exclusive supply of infant milk by pharmacies is expected to strengthen competition among suppliers with a direct positive impact on consumer welfare due to lower prices. The impact assessment on the retail price of infant milk from the implementation of the reform is based on market research for a sample of 16 infant,

16 follow-on and 66 special baby milk products in grocery retail stores, pharmacies and on-line pharmacies. Additionally, we used monthly data of the Consumer Price Index and annual data of the Family Budget Survey (ELSTAT) as an approximation of retail price and household expenditures for baby milk and baby food products and the Price Observatory database of the General Secretariat of Trade to compare the level of retail prices of follow-on milk products.

After the implementation of the reform, grocery retail stores sell infant milk at slightly lower prices relative to pharmacies and on-line pharmacies. However, consumer choice is limited to a few brand-name products compared to a large number of brand-name products provided in the baby milk market. This conclusion could be due to a combination of factors other than the supply channel liberalization. Firstly, sales of baby milk in terms of value and volume declined due to the reduction of birth rates in Greece. Secondly, the average household expenditure per month for baby milk increased, in contrast with baby food, indicating that the demand for baby milk remains inelastic during the financial crisis. Third, pharmacies still remain the key supply channel of baby milk after the implementation of the reform relative to grocery retail stores. This results from the decision of the best performing pharmaceutical companies to retain pharmacies as the exclusive supply channel for their products. Only four of the fifteen companies that operate in the domestic baby milk market distributed their products through grocery retail stores. These companies collaborated with the grocery retail network before the implementation of the reform through the provision of various products including baby food. Fourth, the retail price of infant milk products sold by pharmacies increased relative to 2010 partly due to the increased level of VAT.

Retail trade of dietary supplements and vitamins

The market of dietary supplements and vitamins is legislated by national and EU laws and/or rules in order to ensure a high level of protection for consumers' health and the high quality of products. The national legislation is harmonized with the European Directive with reference to the notification of supplements, list of ingredients, purity criteria, labeling, presentation, advertising, maximum amount

of vitamins and minerals per daily recommended dose and nutrition and health warnings.

The supply channel of dietary supplements and vitamins liberalized after the implementation of ministerial decision ΓΠ/οικ.103499/2013 and Law 4254/2014 (based on recommendation no. 192 of the OECD Competition Assessment report, 2014). After the implementation of the reform, the dietary supplements and vitamins have been supplied by pharmacies, on-line pharmacies, grocery retail hypermarkets, beauty specialist retailers and department stores.

The abolition of the exclusive supply of dietary supplements and vitamins through pharmacies is expected to strengthen competition among suppliers with a direct impact on consumer welfare due to a better combination of lower prices and more consumer choices. The impact assessment of the implementation of the reform on the retail price of dietary supplements is based on market research for a sample of 38 dietary supplements and 17 vitamin products in retail stores, pharmacies and on-line pharmacies.

The market research indicates that the majority of supermarkets do not offer dietary supplements and vitamins after the implementation of the reform. Consumer choices are limited to only one brand-name product in certain grocery retail stores and 2 or 3 brand-name products in beauty or cosmetics specialist retail stores. Thus, the pharmacies still remain the key distribution channel of dietary supplements and vitamins. The companies providing dietary supplements and vitamins believe that the pharmacists are the most appropriate professionals to support consumer choice decisions. Consumers can buy the dietary supplements from retail stores at lower prices compared to pharmacies and on-line pharmacies although their choices are limited. On the other hand, consumers can buy their vitamins from on-line pharmacies at lower prices. The retail price of dietary supplements decreased relative to 2010 while the retail price of vitamins increased. The level of retail prices is influenced by various factors other than supply channel liberalization. Firstly, the inclusion of dietary supplements and vitamins in the daily nutrition of consumers has resulted in the rise in sales volume. Secondly, the systematic advertisement of dietary supplements and vitamins, and the continuous improvement and specialization of products have

operated positively to the direction of new clients. Thirdly, the rise in the value of VAT could influence the level of retail prices.

Sales and offers

In order to increase the efficiency of the Greek economy, retail trade, which employed more than 13% of the total employed in the second quarter of 2015 and had an added value of approximately 3% of GDP in 2014, could not have been neglected. In 2014, an OECD report suggested nine interventions regarding retail trade and, in particular, sales and promotions aiming at increasing competition and reducing prices to benefit consumers and the economy in general. The current study attempts to evaluate the degree of compliance of institutional interventions with the OECD's recommendations and to further assess their impact on a number of key variables in the field of retail trade, such as employment, prices, turnover and retail trade volume. In order to achieve this, the report relies on limited available data for selected retail trade sub-industries that come from ELSTAT (Structural Businesses Survey, Labour Force Survey, Consumer Price Index, Turnover Index and Volume Index) or other sources (IKA-ETAM, ESEE) and uses econometric techniques to isolate the effect of specific variables of interest, such as pseudo-dummies for the year, month or quarter (depending on data availability).

Following the legislative interventions of the past years, the institutional framework is considered adequately deregulated. Out of the nine OECD's recommendations, six were fully implemented, two were used as bases for reforms and only one was not adopted. The remaining restrictions probably increase the operating cost of firms (e.g. in multi-package items, the firm has to sell the single item separately as well), but all-in-all the extent and volume of those restrictions has been severely limited over the past two years and, in particular, since the implementation of Law 4254/2014 and the introduction of the Code of Contact (M.D. 56885/ 2014). Moreover, it would probably be wiser to base any additional interventions in the future, for example regarding the full deregulation of seasonal sales, on a thorough impact assessment, in order to make clear to relevant stakeholders their usefulness and necessity.

Regarding the impact of institutional interventions on selected variables of the market, the following conclusions can be drawn. First, the consequences on employment in retail trade are almost non-existent so far, while in those sub-industries where a statistically significant impact is found, this is negative. Moreover, institutional changes seem to have exerted downward pressures on the prices of products examined (which were selected based on the larger variance their prices exhibited throughout the year) and, in particular, the entire year, not just during seasonal sales. This means that consumers are probably better off. On the other hand, sales in May and November had a similar, although weaker, effect on prices.

Furthermore, institutional changes seem to have a positive impact on turnover in retail trade, but the same does not hold during seasonal sales. August is an exception as it is characterised by a lower turnover, especially when institutional changes are accounted for, together with January, which has a statistically significant and positive impact on turnover, but only after the introduction of institutional interventions. Lastly, the latter seem to have boosted the volume of sales in retail trade, thus they may have favoured merchants, under certain assumptions. On the other hand, only winter seasonal sales increase sales volume, while institutional changes did not alter their effect.

To conclude, the most important drawback of this report is the lack of adequate data. Especially with respect to the number of firms, the most recent data from the Structural Businesses Survey refer to 2013. Therefore, there is an obvious need for a quicker process of data collection. Last, but not least, it should be pointed out that the results of this report must be treated with caution, given the lack of suitable data for performing in-depth analysis and the short time since the implementation of the interventions.

Distribution of cement/Dispatching centres

The institutional framework regulating the transfer of bulk cement or big bags, was significantly amended adopting all of the OECD report recommendations (recommendations 1, 2, 3, 4, 5 and 40) relating to the removal of any obstacle that harms competition in handling cement. Specifically, Law 4254/2014 (GG A' 85) abolished the requirement for a dispatching centre in cases where (a) the bulk ce-

ment is transferred through a sealed means of transport, it originates from a member state, irrespectively of the dispatcher and whether the product is destined for own use, and (b) the transfer is in big bags in cases where the big bag is sealed, it is destined for own use or for further supply, without being unpackaged and repackaged. Moreover, there was no legislative act with regard to the capacity of the dispatching centres, while the imposition of a fee of 2% of the sale price of cement in favour of the Subsidiary Pension Fund of the Employees in the cement industry was abolished. The abolition of the requirement for transferring cement through a dispatching centre, in the abovementioned cases, potentially increases competition efficiency, both by eliminating the entry barriers for new suppliers, as well as by lowering the price level, with corresponding benefits for the end users. Finally, the abolition of the fee reduces both the cement sale price, as well as the cost of those using cement as a raw material. Moreover, the end users no longer subsidize the Subsidiary Pension Fund of the Employees in the cement industry.

Given that the country has been going through a major economic crisis since 2010, with a significant impact on economic activity (25% reduction of GDP), where the construction sector has been particularly affected (with a drop in construction activities by more than 75%) while cement production has decreased by 70%, it is particularly difficult to assess the impact of the reform in the distribution of cement and draw firm conclusions. The currently available data from the GSIS on the start-up of activity and the number of active participants in the relevant Code Number Activity (C.N.A.) suggest that the reform has not yielded the expected results, which was the revival of the construction sector and the entry of new active participants, but the number of active participants and businesses followed the overall downward trend of the crisis period. Regarding employment in the cement industry, data from the Labour Force Survey indicate that the reduction of employees cannot be attributed to the legislation, but it appears to be the result of the economic crisis. In regard to the impact on cement prices, both the Input Index and the Output Index of the construction sector show that prices continue the downward trend of the years in crisis, but with a decreasing rate. This gives an indication that the reform did not affect prices, as expected.