THE REGULATORY FRAMEWORK IN ICELAND

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OCDE
DES POLITIQUES MEILLEURES
POUR UNE VIE MEILLEURE

– Background from 2015 OECD Economic Survey of Iceland

– Policy and regulatory settings drawn from the Product Market Regulation database
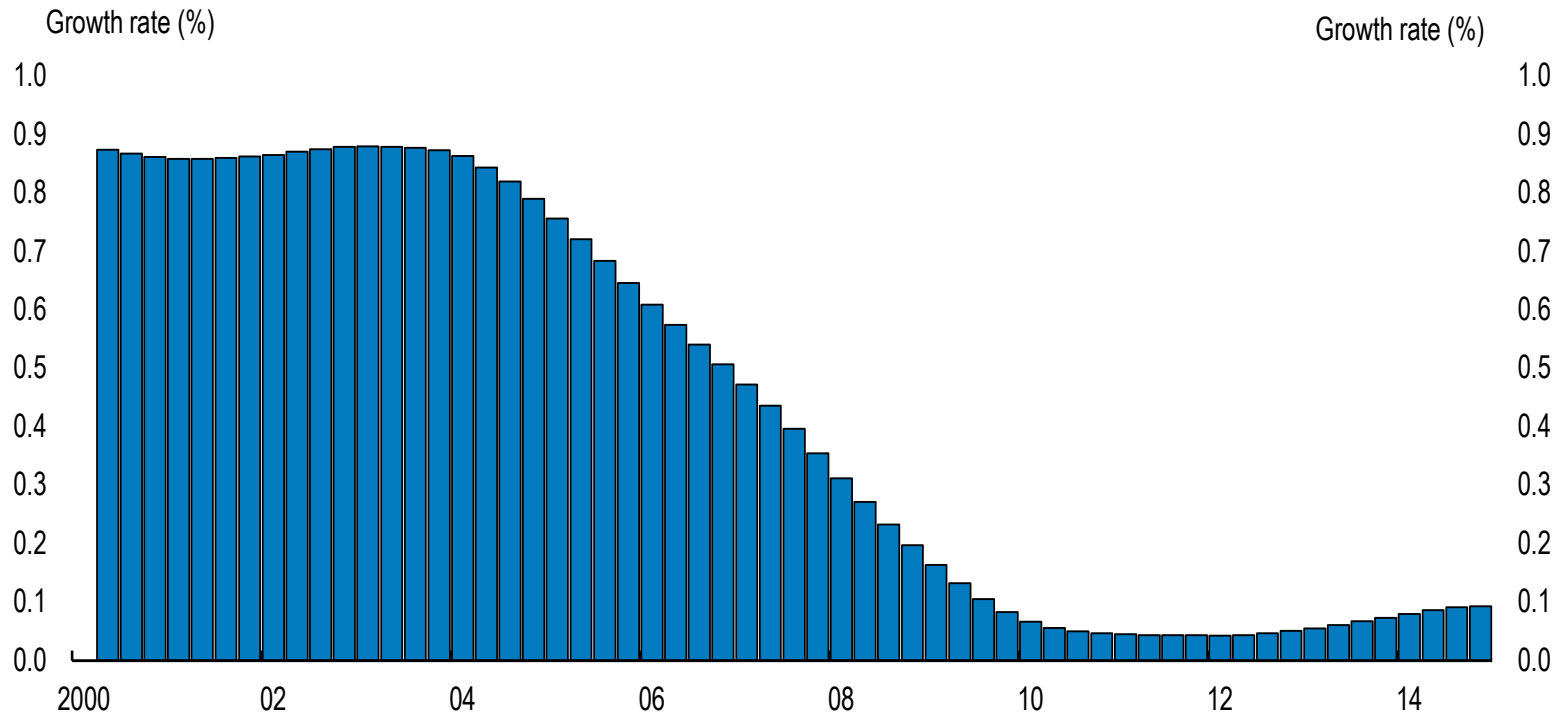
– OECD Global Forum on Productivity

2015 OECD Economic Survey of Iceland

Labour productivity growth has slowed

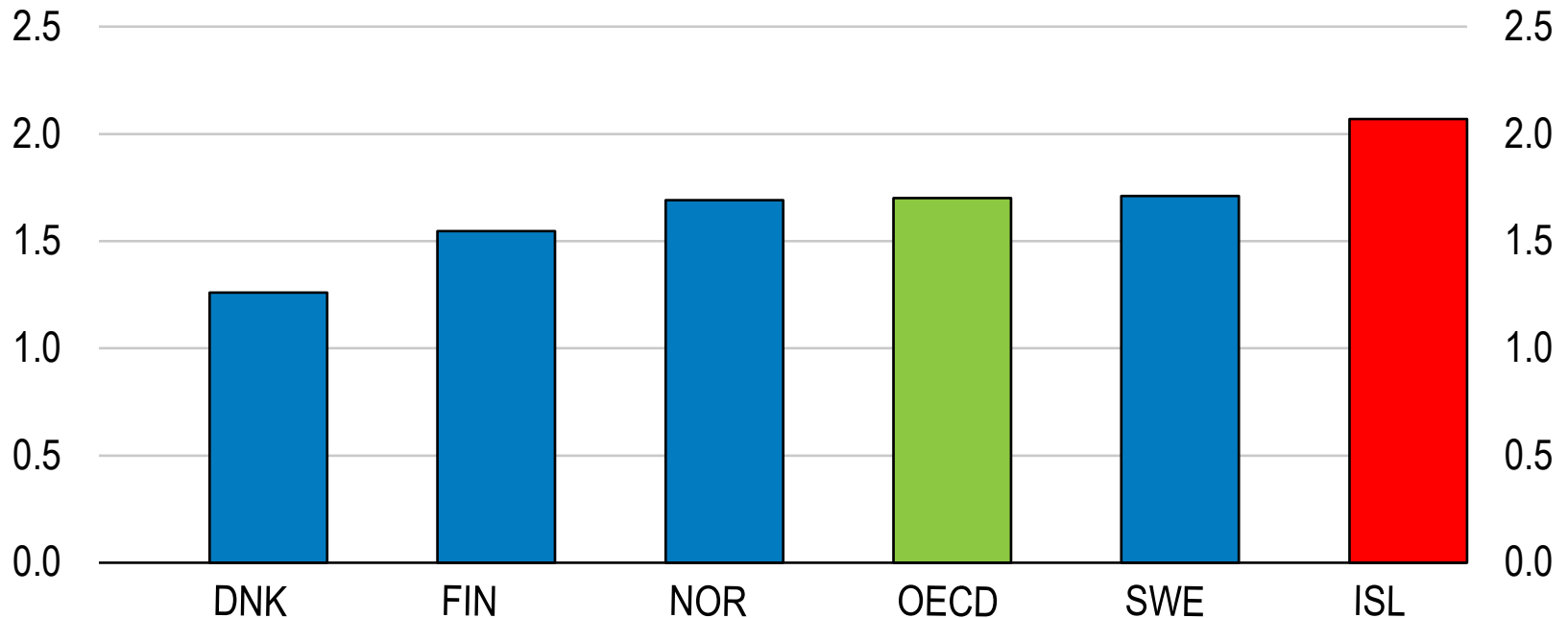Source: OECD, Analytical and Economic Outlook databases; Labour Force Statistics and Productivity databases.

Competition policy
in a small open economy

- Competition can boost productivity

- Icelandic Competition Act is well founded

- Limits to competition in small open economies
  - e.g. economies of scale

Barriers to entrepreneurship are high

Note: Index scale of 0-6 from least to most restrictive.

Source: OECD, Product Market Regulation indicators database.

The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable.

Less than half of students finish high school on time
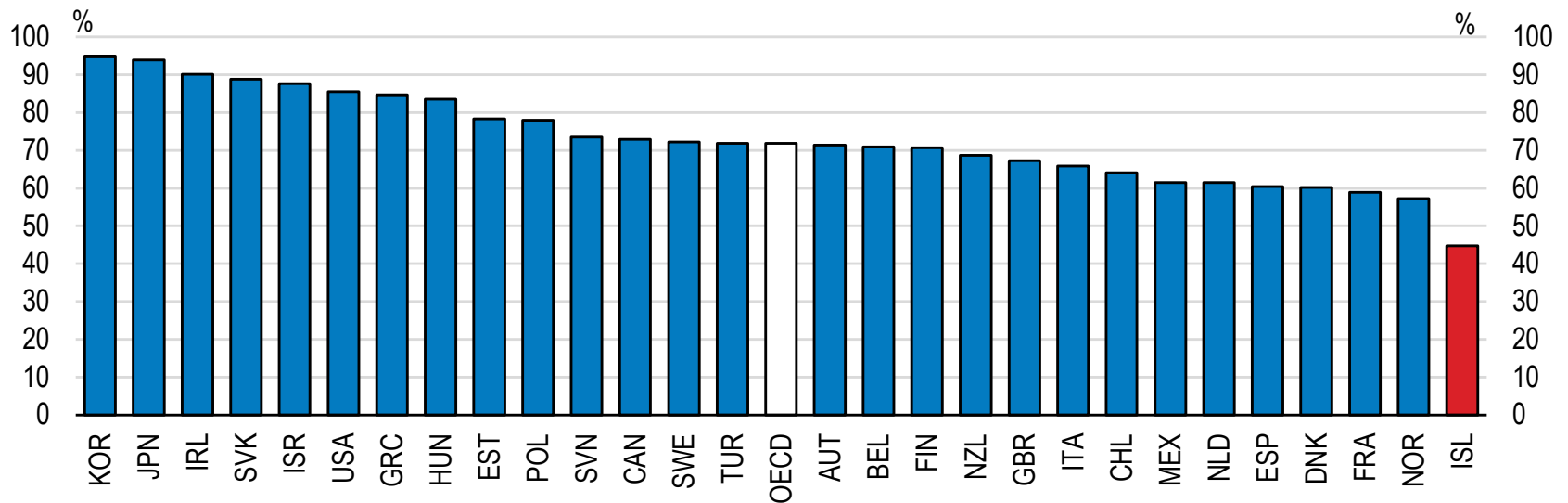
Note: Successful completion of upper secondary programs within the set time needed to complete.

Source: OECD, Education at a Glance 2014

Adopt a productivity-friendly agenda

- Create a productivity commission

- Lower legal barriers to entry and regulatory procedures

- Use the OECD's Competition Assessment Toolkit

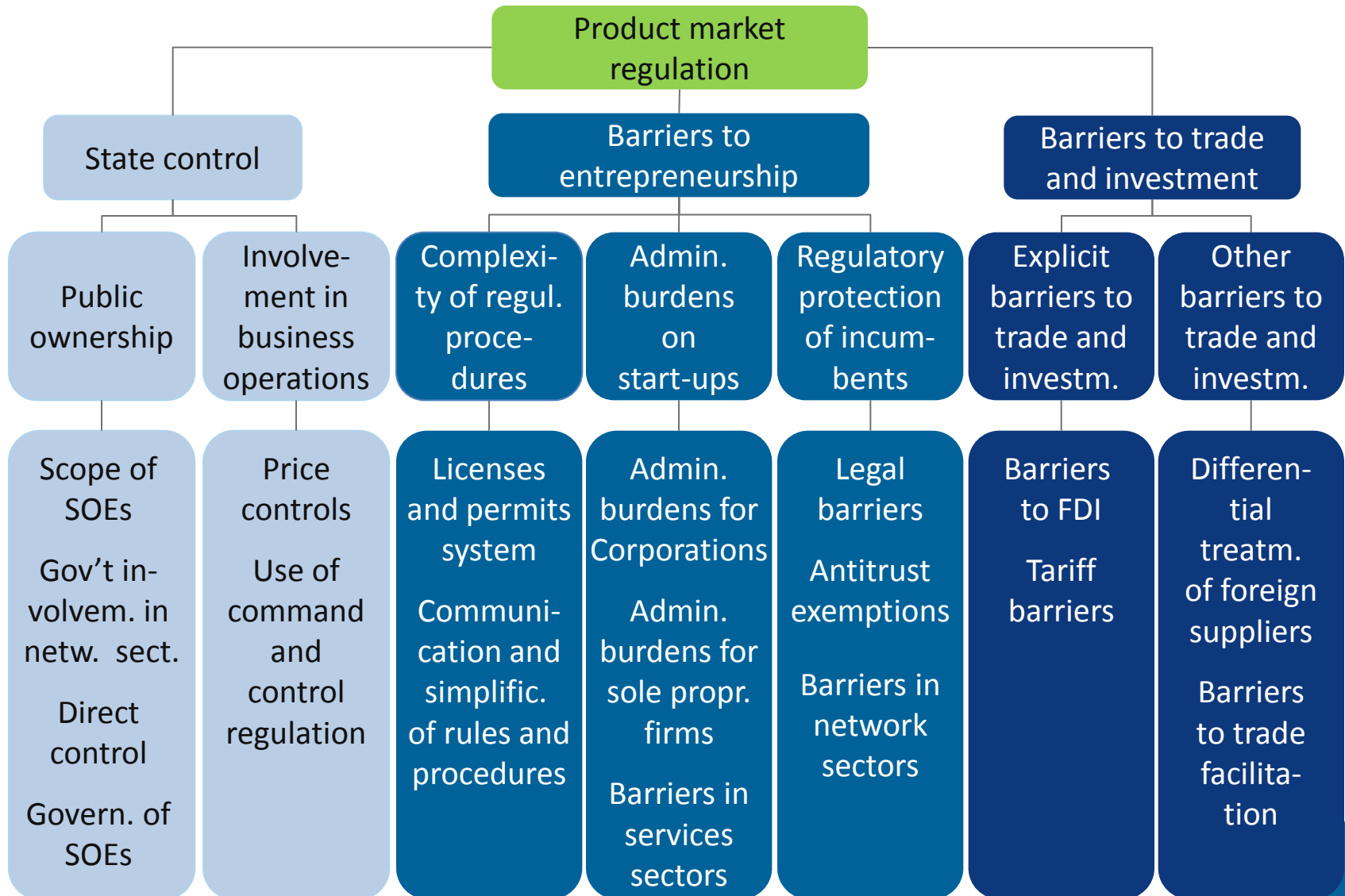- Support students who are vulnerable to dropping out

Product Market Regulation

# The economy-wide PMR indicator aggregates information by regulatory theme.

Product market regulation

- **State control**
  - **Public ownership**
    - Scope of SOEs
    - Gov't involvem. in netw. sect.
    - Direct control
    - Govern. of SOEs
  - **Involvement in business operations**
    - Price controls
    - Use of command and control regulation

- **Barriers to entrepreneurship**
  - **Complexity of regul. procedures**
    - Licenses and permits system
    - Communication and simplic. of rules and procedures
  - **Admin. burdens on start-ups**
    - Admin. burdens for Corporations
    - Admin. burdens for sole propr. firms
    - Barriers in services sectors
  - **Regulatory protection of incumbents**
    - Legal barriers
    - Antitrust exemptions
    - Barriers in network sectors

- **Barriers to trade and investment**
  - **Explicit barriers to trade and investm.**
    - Barriers to FDI
    - Tariff barriers
  - **Other barriers to trade and investm.**
    - Differential treatm. of foreign suppliers
    - Barriers to trade facilitation

The 2013 reveals a fair degree of heterogeneity across countries

Economy-wide PMR indicator

Index scale 0 to 6 from least to most restrictive
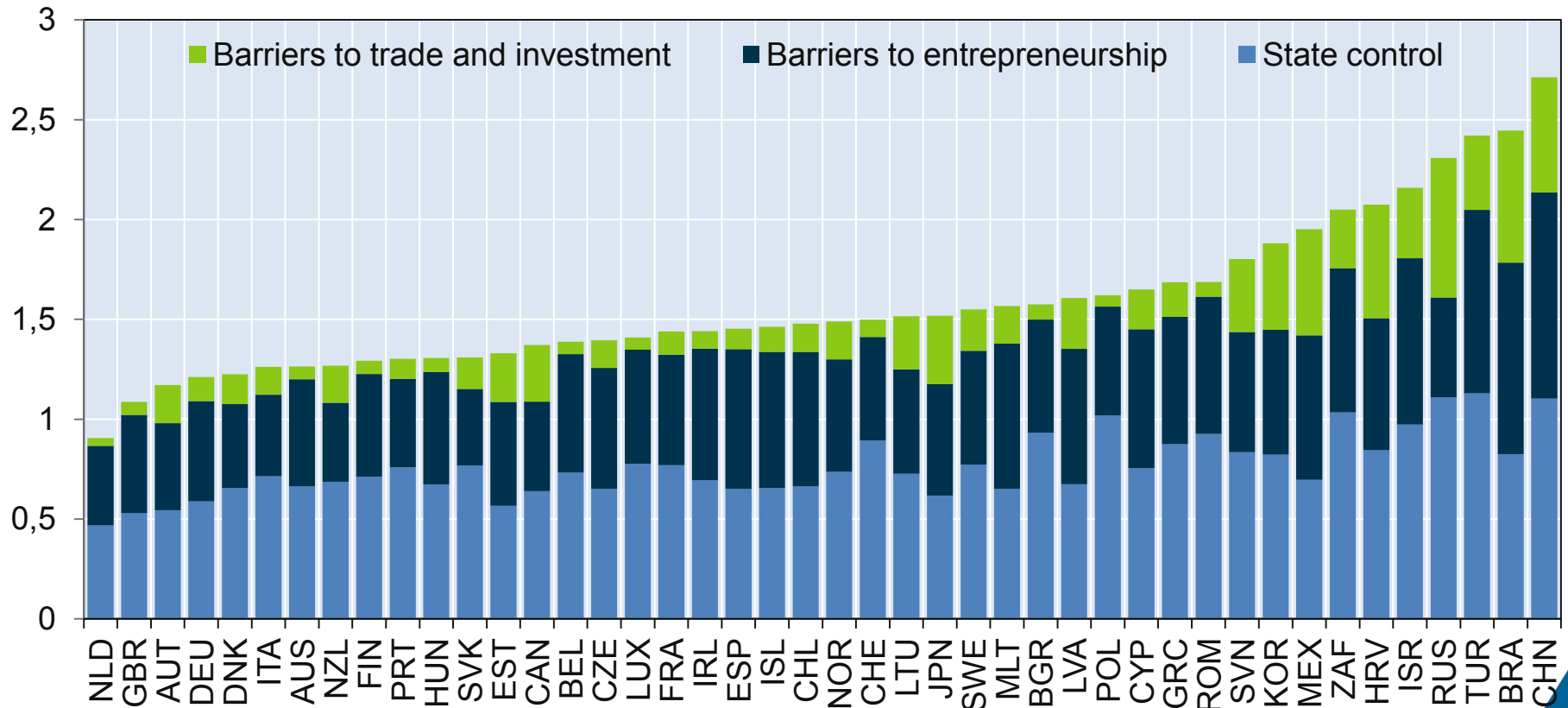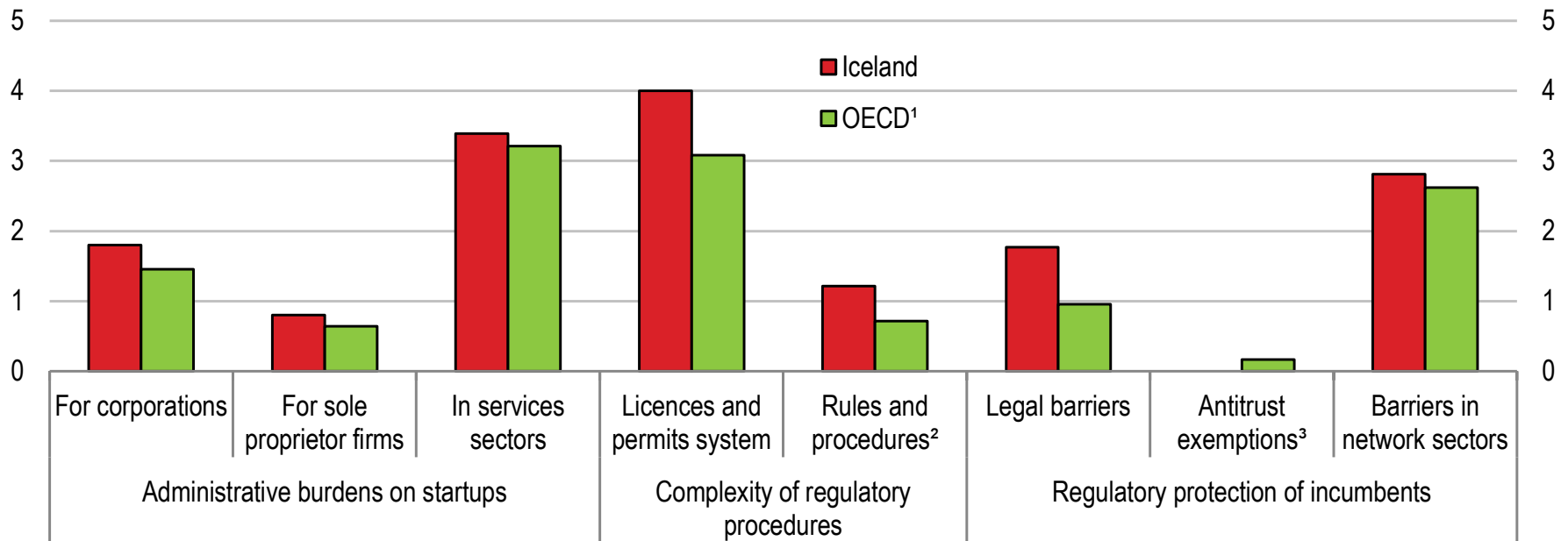
The PMR scores for Iceland

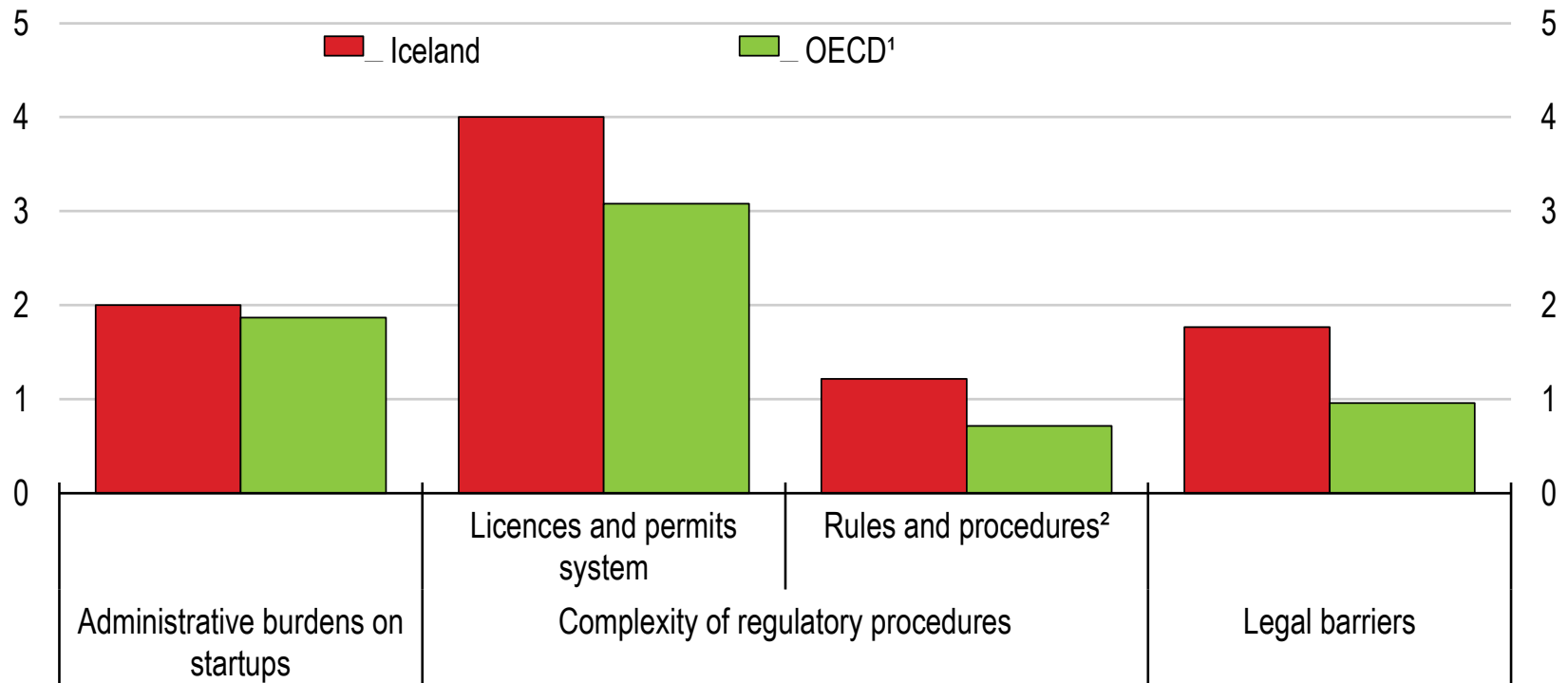Index scale of 0-6 from least to most restrictive.

Sub indicators for the barriers to entrepreneurship indicator

Biggest differences are with the regulatory and legal barriers

1. The OECD aggregate is an average of data available (25-30 countries depending on the year covered).
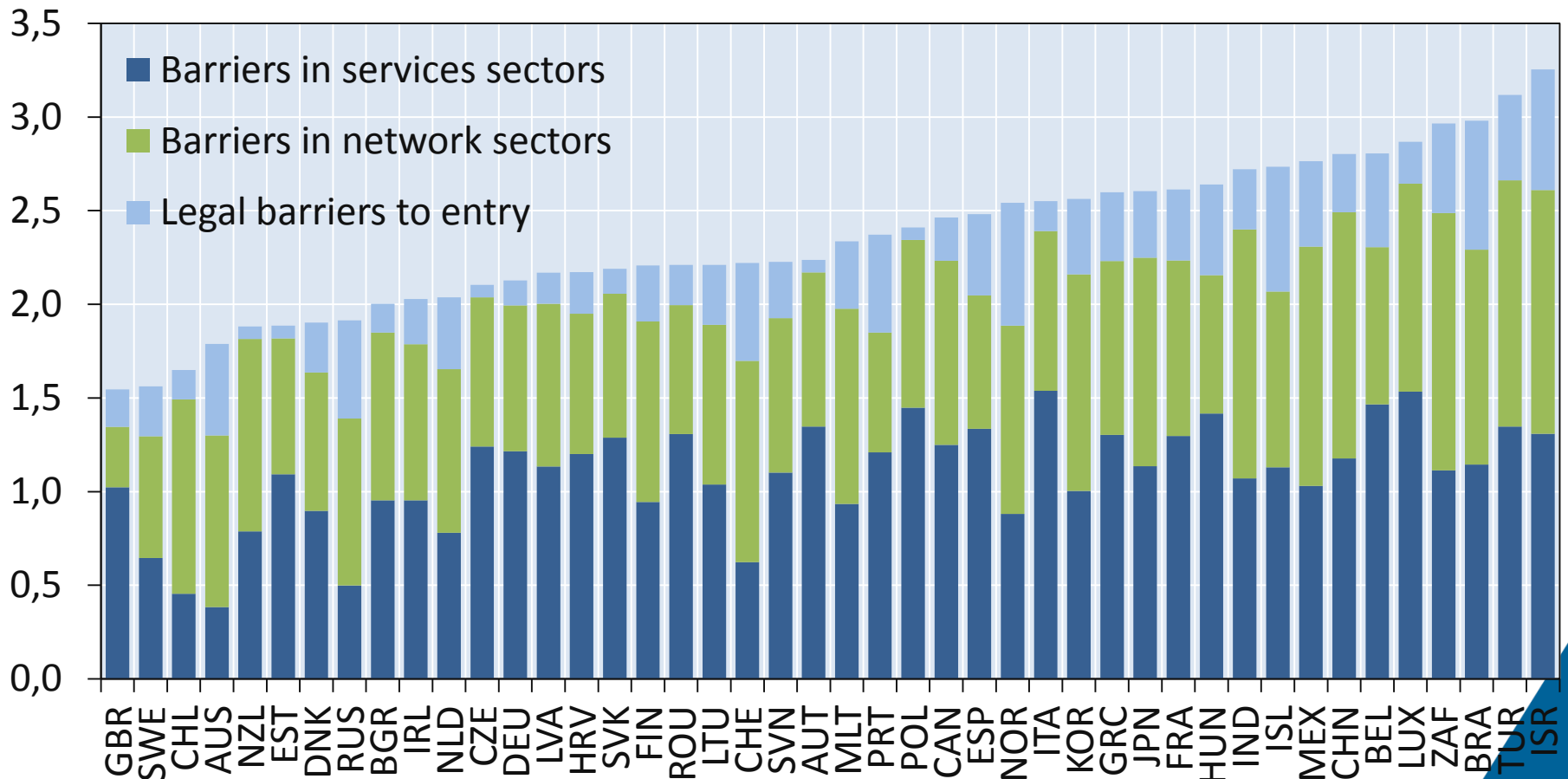2. Communication and simplification of rules and procedures.

Source: OECD, Product Market Regulation database.

Differences with respect to other regulatory barriers to competition

PMR indicator on barriers in network and services sectors and legal entry barriers

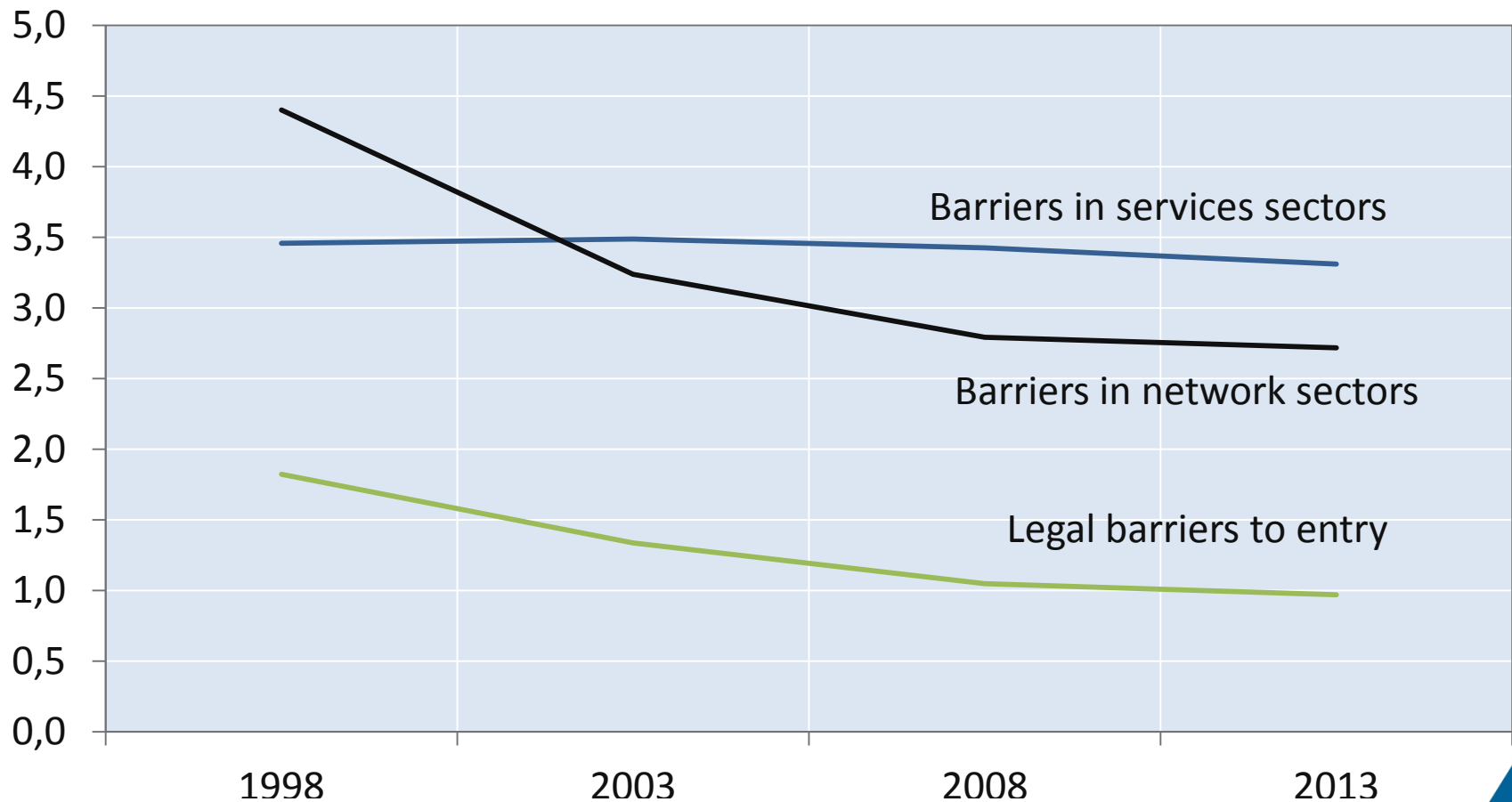Index scale 0 to 6 from least to most restrictive

On average in the OECD, legal barriers to entry have fallen

PMR indicator on barriers in network and services sectors and legal entry barriers

Index scale 0 to 6 from least to most restrictive

Barriers in services sectors

Barriers in network sectors

Legal barriers to entry

1. To ensure comparability over time, only OECD countries for which data are available for all years are taken into account.

OECD Global Forum on Productivity

OECD Global Forum on Productivity

- Established late 2015
  - Already 13 countries in steering group

- Share best practice
- Share data on results of policies
- Support policy-orientated analysis

- High-level meeting, workshops, dedicated web portal, working papers

Thank you for your attention

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Additional slides

Methodologies and strategies used to construct the PMR indicators.

Aim
- Enhancing the **knowledge of regulatory practices** in OECD and non-OECD countries
- **Quantifying** a country's regulatory stance and track reform progress over time
- Investigating their **link with economic performance**.

Scope
- Economy-wide regulation (**PMR**)
- Regulation in telecoms, electricity, gas, post, rail, air passenger transport, road transport, retail trade and professional services (**NMR**)
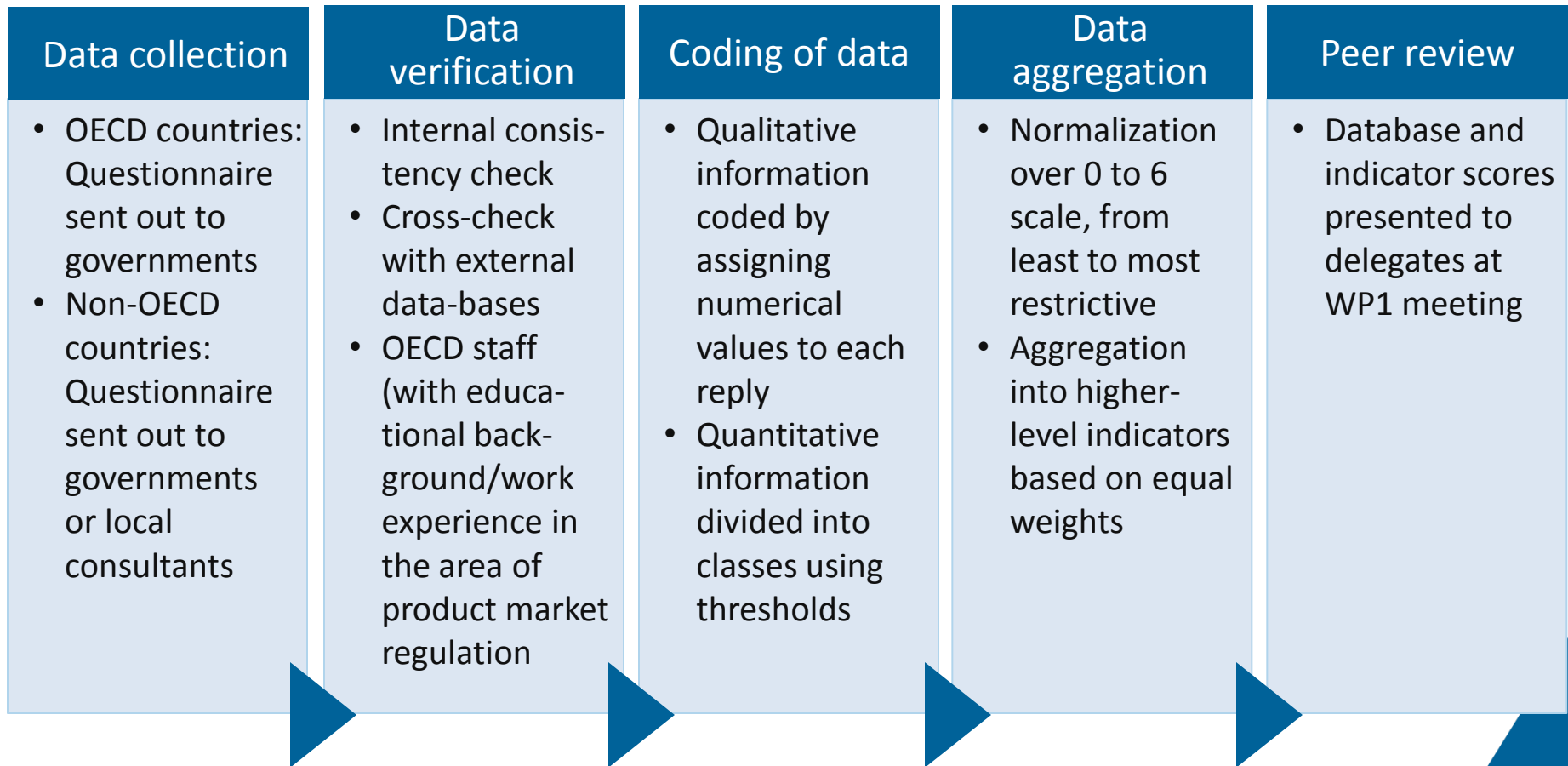
Policy setting
- The indicators capture foremost **de jure** regulatory settings
- The implementation and enforcement of regulations and the associated institutional framework are not covered by the PMR and NMR

Coverage
- **Countries**: 34 OECD countries and 21 non-OECD countries
- **Years**: 1998, 2003, 2008, 2013 (for regulation in network sectors: 1975 to 2013)

How do we proceed from data collection to computing the final indicator value?

| Data collection	Data verification	Coding of data	Data aggregation	Peer review
• OECD countries: Questionnaire sent out to governments • Non-OECD countries: Questionnaire sent out to governments or local consultants	• Internal consistency check • Cross-check with external data-bases • OECD staff (with educational background/work experience in the area of product market regulation	• Qualitative information coded by assigning numerical values to each reply • Quantitative information divided into classes using thresholds	• Normalization over 0 to 6 scale, from least to most restrictive • Aggregation into higher-level indicators based on equal weights	• Database and indicator scores presented to delegates at WP1 meeting

Regulation can hamper productivity

Increase in multi-factor productivity compared to regulatory stance

Faster growing

More regulated

Correlation coefficient = -0.55**
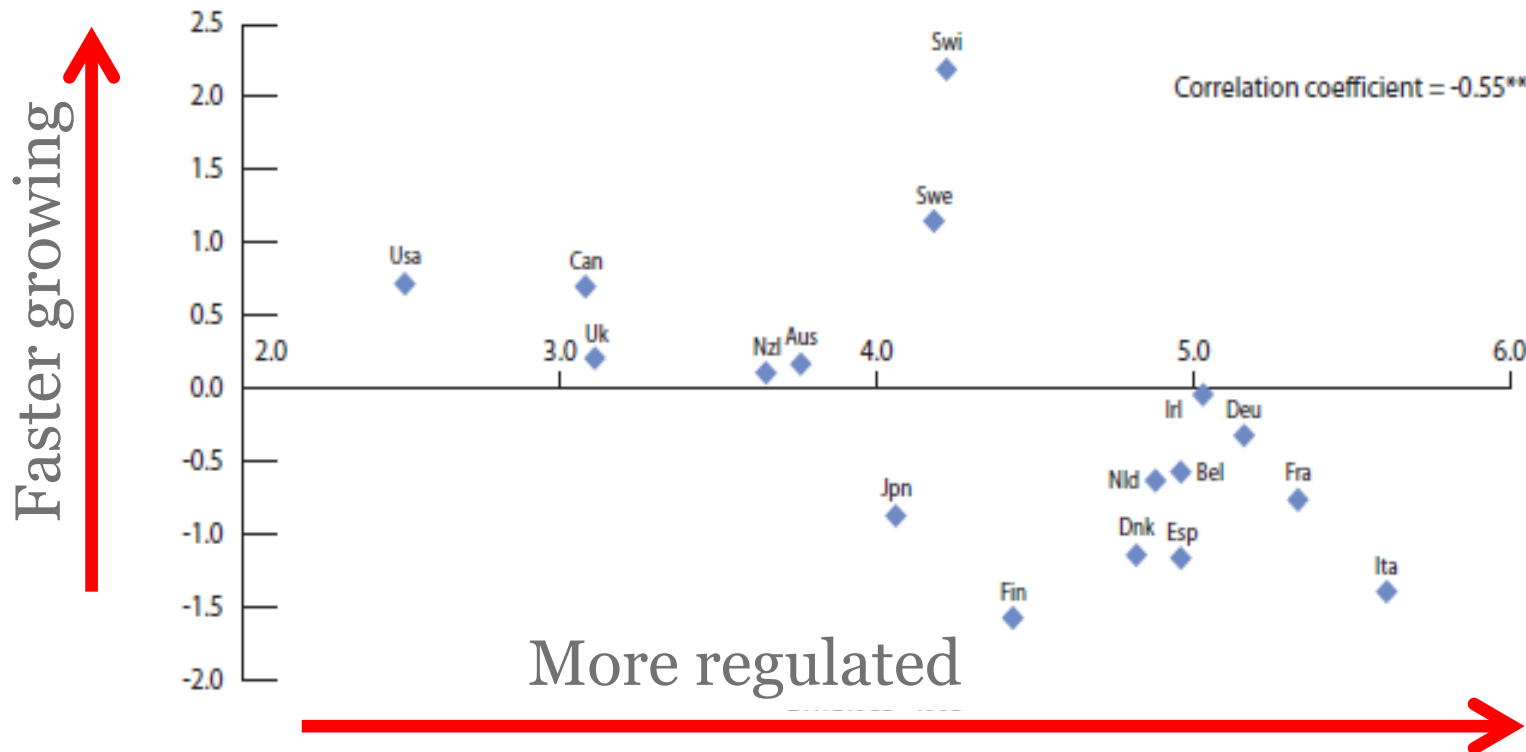
Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.

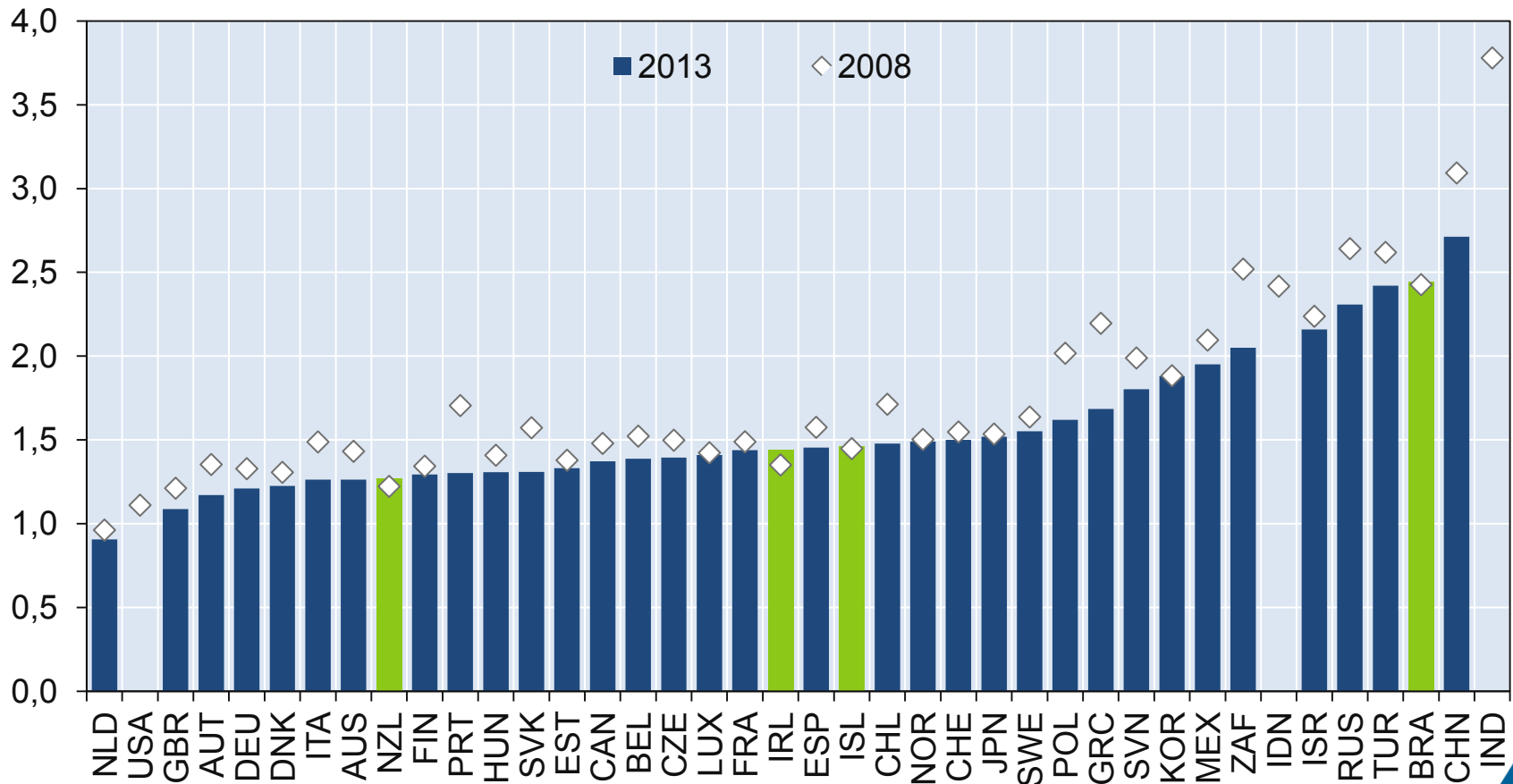# The indicators on sector regulation aggregate information by sector – network sectors
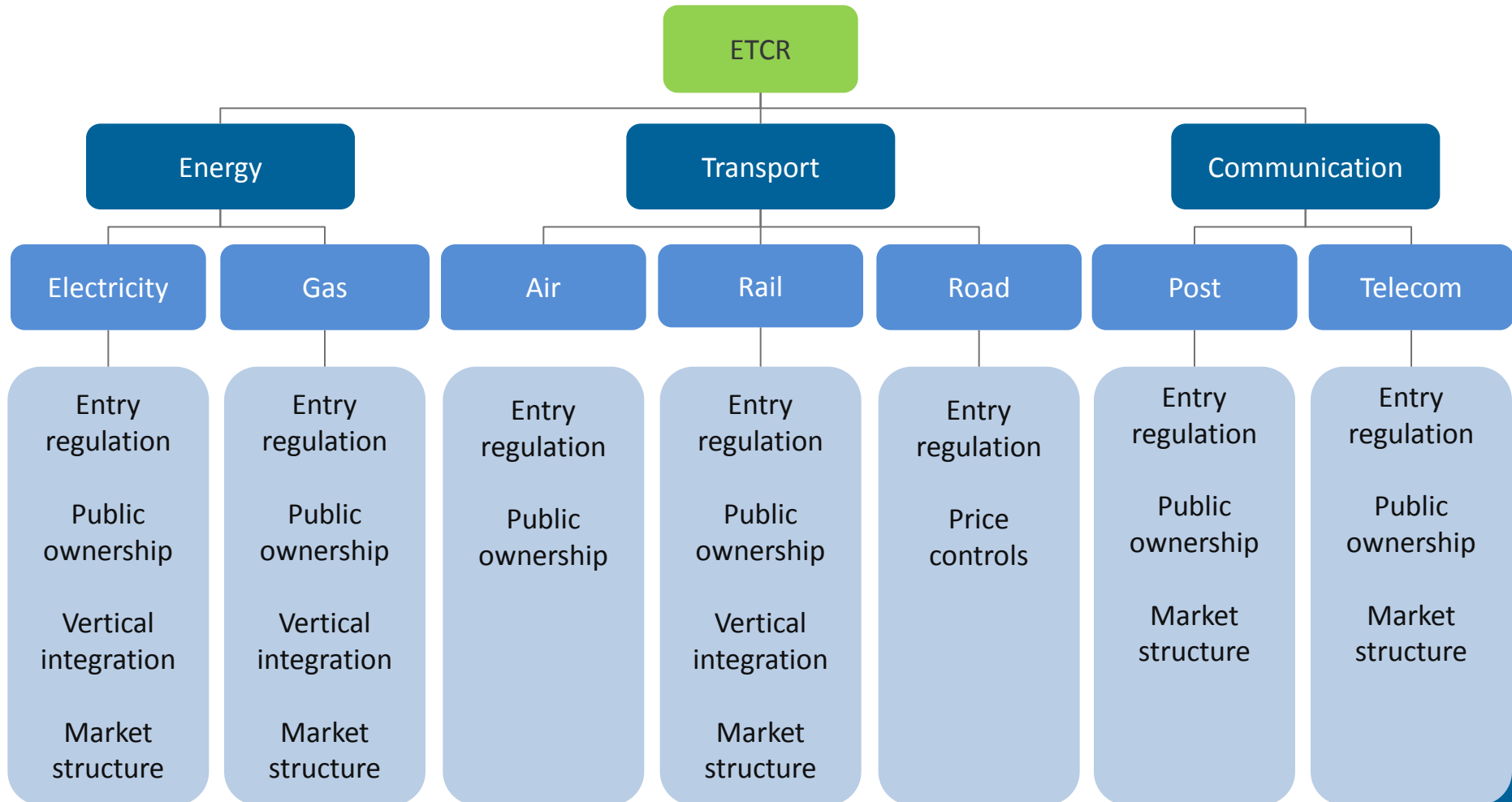
Countries displayed different extents of regulatory reform over the period 2008-13
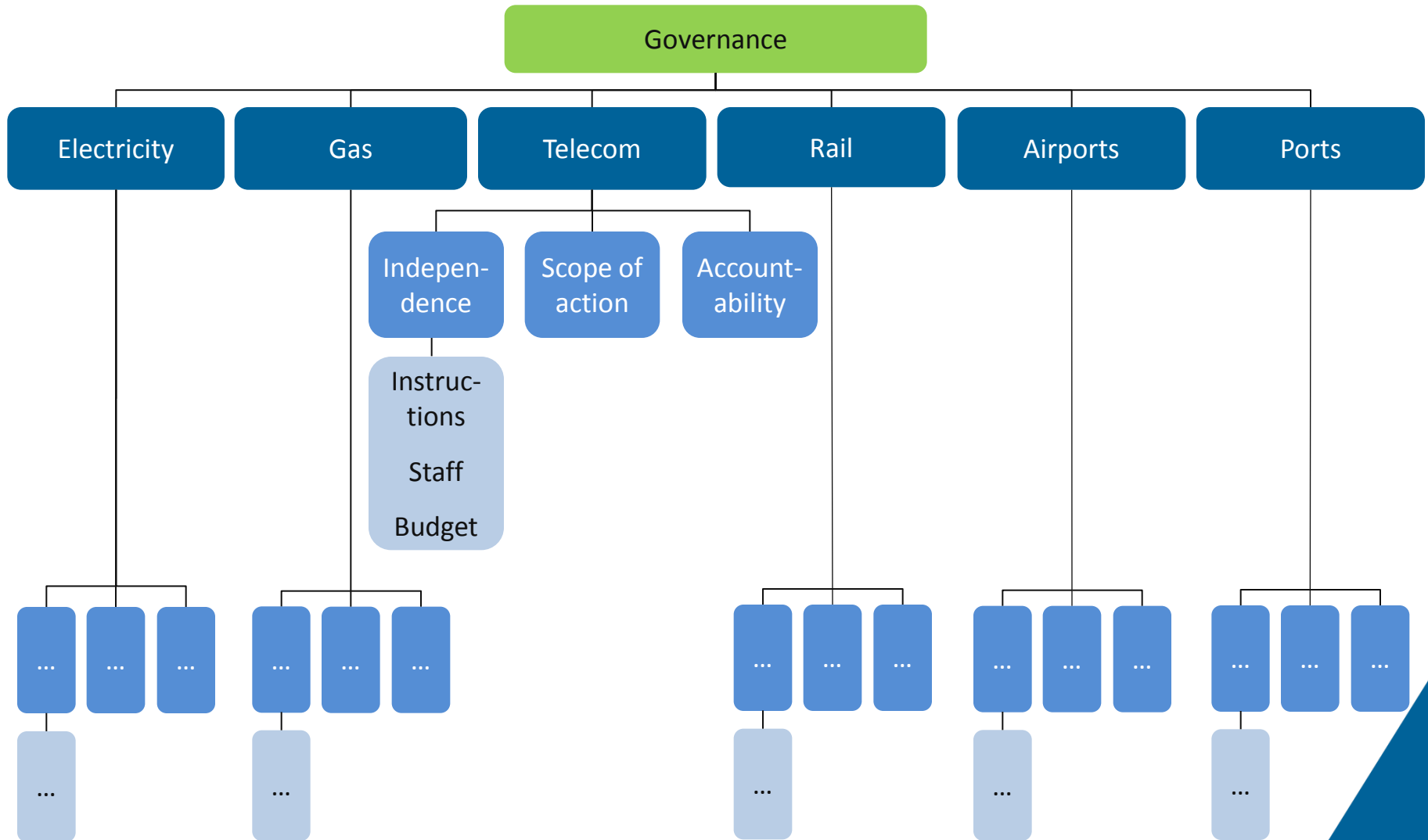
Economy-wide PMR indicator

Index scale 0 to 6 from least to most restrictive

Information on competition law and policy is aggregated in two different ways.

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Indicator set 1

| Scope of action | Policy on anti-comp. behaviour | Probity of investigation | Advocacy |

Indicator set 2

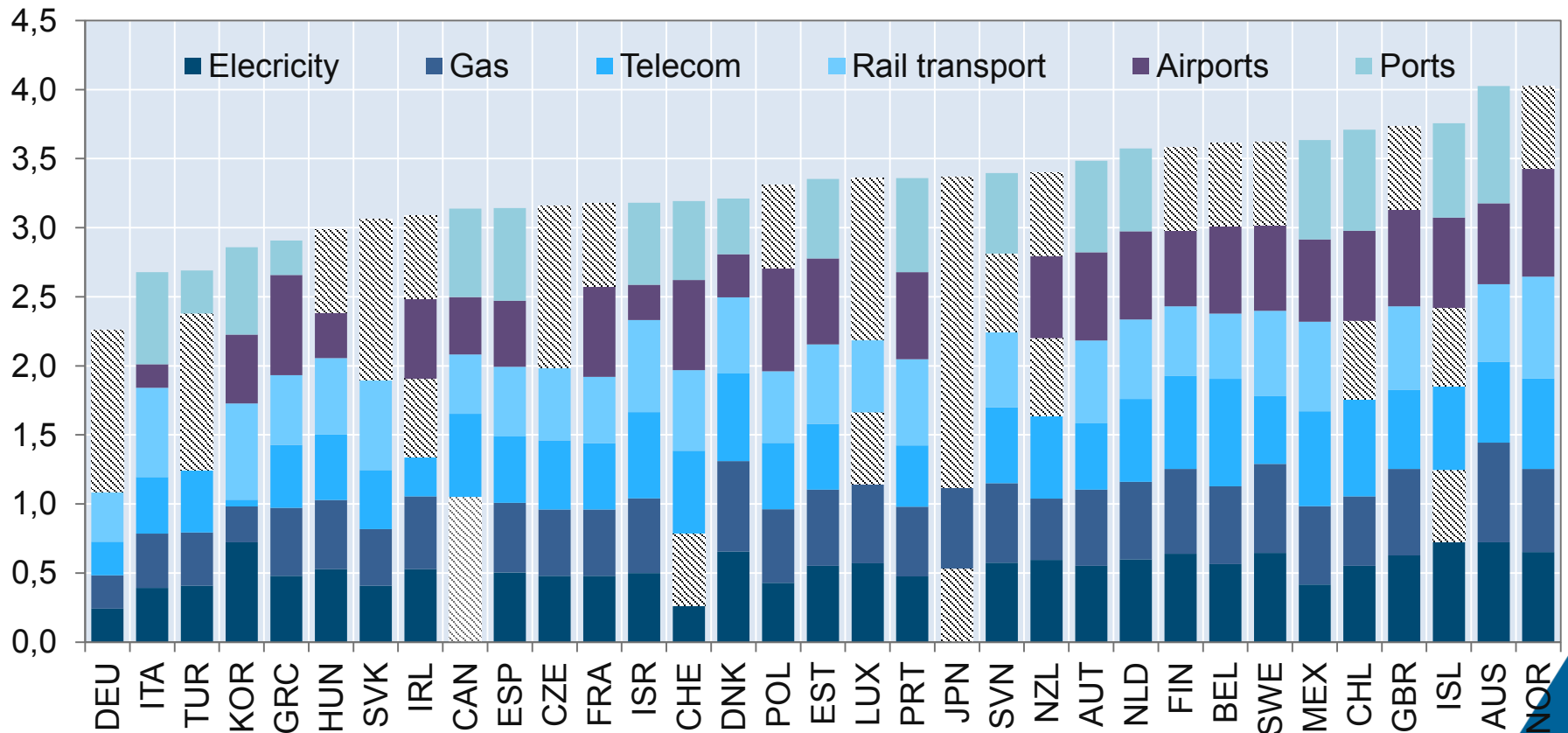| Competencies | Horizontal agreements | Independence | Advocacy |
Powers to investigate	Vertical agreements	Accountability	
Sanctions/ remedies	Mergers	Procedural fairness	
Private enforcement	Exclusionary conducts		

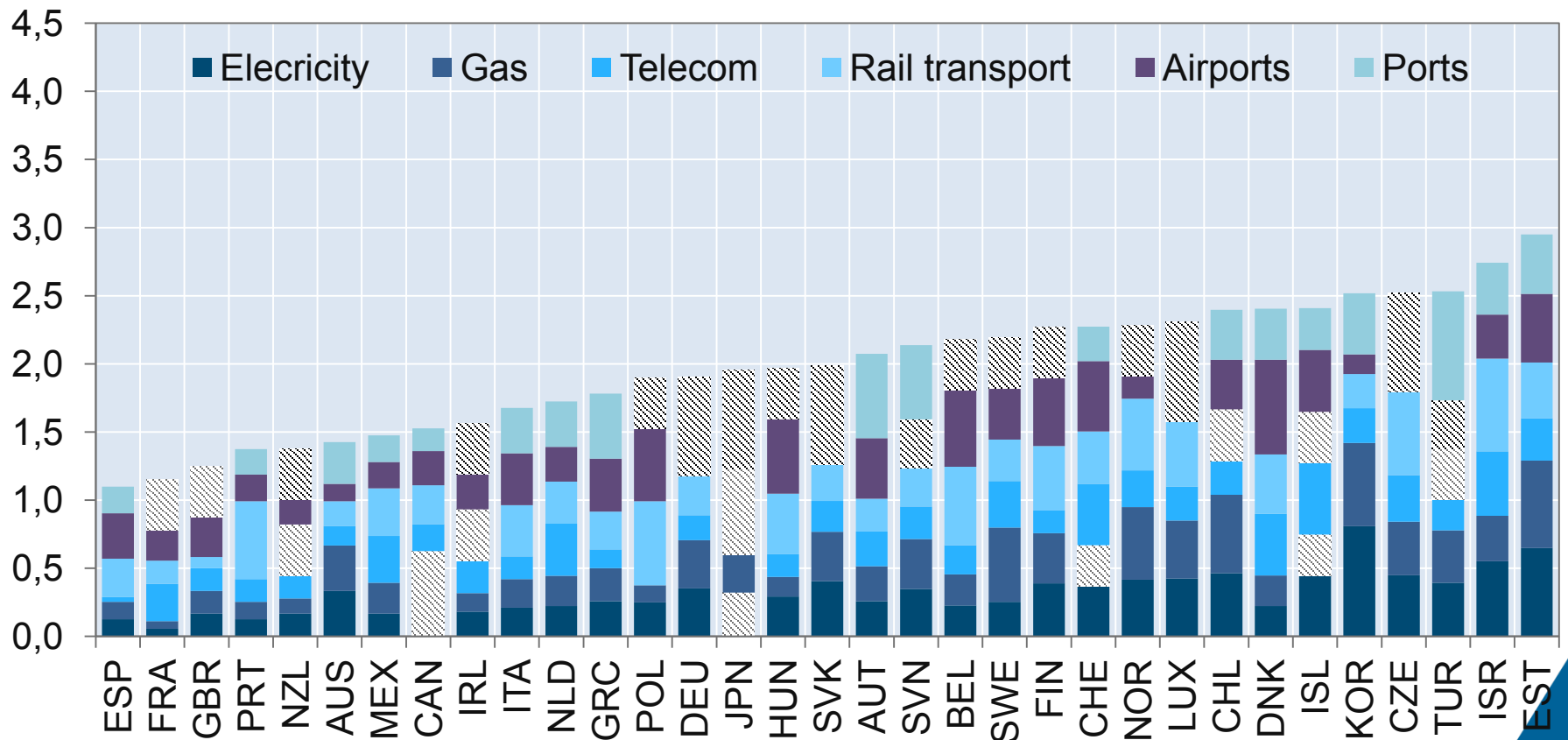# The independence of economic regulators

Index scale 0 to 6 from most to least independent

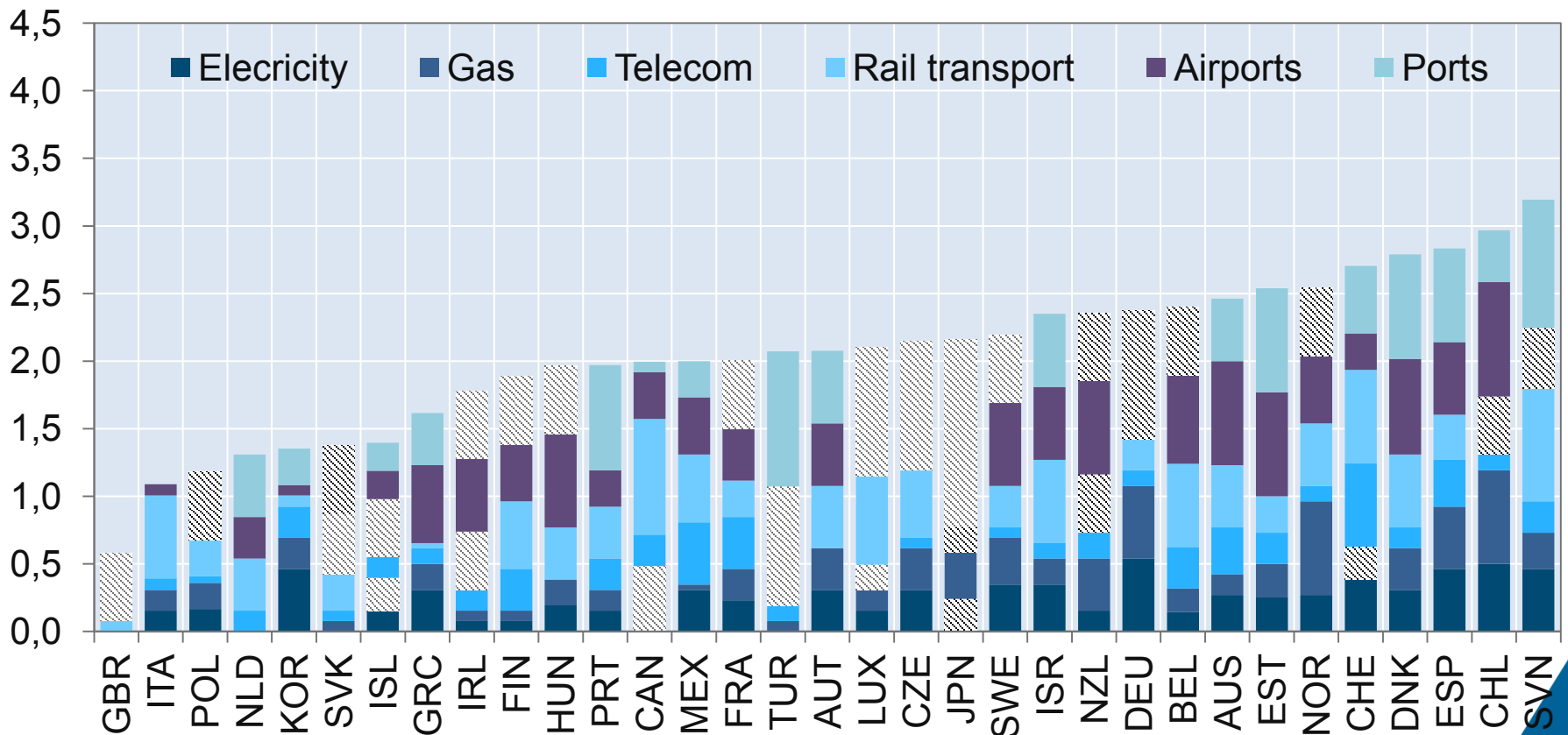# The accountability of economic regulators

Index scale 0 to 6 from most to least accountable

The scope of action of economic regulators

Index scale 0 to 6 from most to least scope of action

Further information can be found on the PMR webpage.

http://www.oecd.org/eco/pmr

Competition Assessment Toolkit

Regulation

➢ Markets do not always operate efficiently, need for state intervention = regulation

➢ Correctly designed regulation has very important beneficial effects for society (protection for consumers & environment, health & safety, etc.)

➢ Rules and regulations typically have desirable socio-economic objectives

➢ BUT

- badly designed regulation can also distort competition

Regulations and their impact on markets

➢ In specific circumstances, rules and regulations have the potential to cause harm to the efficient functioning of markets, by preventing new firms entering a market or altering the ability and incentives of firms to compete

➢ We do not question the socio-economic values

➢ **Our objective:** assess the effects of the regulations on
  – Extent of competition in the markets
  – Incentives for firms to engage in innovative activity
  – Potential for growth of the markets
  – The usefulness or purpose of the regulation itself

Why competition assessment?

- The objective is to assess the effect of regulation on
  - Extent of competition in the markets
  - Incentives for firms to engage in innovative activity
  - Potential for growth of the markets
  - The (unintended) effect on consumers
- ➤ A different way of stating the objectives
  - We want to avoid restricting competition when making policy
  - Better to address concerns related to competition and innovation before a policy is enacted
    - Vested interest-groups may make later corrections rather difficult

Why the emphasis on assessments?

- Some of the factors relate to
  - Increasing realisation that markets may work reasonably well in many industries that traditionally have been heavily regulated
  - Change in technology and market conditions warrant re-evaluation of many types of regulations
  - Improved quality of regulations may lead to national economies becoming more competitive and innovative, and domestic firms being in a better position to compete globally

- The assessment process involves revision and improvement and should lead to positive change

Competition assessment: examples

Review of existing legislation in Mexico
- Multi-year project to improve competitiveness in cooperation with the OECD
- 4 sectors with widespread impacts on competitiveness selected for review
- 11 sectors with significant consumer expenditure selected for review
- 4 additional areas of cross-sectoral regulation with a high impact on competitiveness also examined.

Australia review of laws and regulations resulting in substantial restrictions on competition
- Over 1800 laws and regulations reviewed over 5 years

Greece Competition Assessment
- Approximately 1000 pieces of legislation touching 4 sectors (food processing, retail trade, building materials, tourism) were reviewed

Reviewed 4 sectors in Greece, totalling 21% of GDP, in 2013

Sector:	Food processing	Retail trade	Building materials	Tourism	Horizontal legislation	Total
Pieces of legislation examined	100	210	46	132	67	555
Recommended for change	54	129	32	76	38	329

OECD Recommendations for reform valued at €5.2bn annually for Greece

Issue	Annual Benefit	Number of provisions affected	Value, €m
"Fresh" milk	€33m (consumer benefit/year)	2	33
Levy on flour	€8m-11m (value of levy/year)	1	8
Sunday trading	€2.5bn (annual expenditure), plus 30,000 new jobs	3	2 500
Sales and discounts	€740m (annual turnover)	9	740
Over the Counter pharmaceuticals	€102m (consumer benefit/year)	23	102
Marinas	€2.3m (annual turnover)	10	2
Cruise business	€65m (annual turnover)	4	65
Advertising	€1.8b (consumer benefit/year)	14	1 800
Everything else	*???*	*263*	*???*

Total: €5.2bn + ???