

ESTIMATING THE ECONOMIC IMPACT OF THE OFFICE FOR COMPETITION WITHIN THE MALTA COMPETITION AND CONSUMER AFFAIRS AUTHORITY

The Office for Competition in Malta is the leading administrative competition authority and its primary duty is to promote sound competitive practices to further the attainment and maintenance of well-functioning markets for the benefit of consumers, businesses and the Maltese economy. These benefits include lower consumer prices, increased efficiency and lower costs for firms, improved consumer choice and better quality.

The aim of this study is to quantify the economic benefits that accrue to the Malta economy as a result of the Office's activities. The assessment demonstrates how the interventions of the Office in different sectors of the economy benefit consumers while at the same time increases transparency and measures the effectiveness of its activities. Through an application of time series econometric methodology, input-output methodology and OECD's recommendations and assessments, this study sets out the estimated impacts and quantitatively explores the multiplier effects of both the direct and indirect roles of the Office for the period 2014-2018.

Apart from the direct economic benefits which could be attributed to the operations of the Office, there is an even larger economic benefit arising from deterrence effects of anti-competitive behaviour. In principle, the existence of a competition authority deters companies from engaging in anti-competitive behaviour that they would have otherwise engaged in. Examples of deterrence effects that accrue from the presence of a competition authority include increases in the number of firms and lower mark-ups in the market and boosts in total factor productivity and GDP.

The omission of such effects has two important implications; (i) it makes it hard for the policymaker to know what the returns on competition policy are and therefore what the return ratio amounts to, (ii) without an expected economic return the competition authority cannot prioritise cases to investigate. This study therefore also attempts to quantify such indirect effects via an application of various empirical methodologies as well as by employing a number of robust assumptions. These indirect effects are intended to capture deterrence effects of anti-competitive mergers and anti-competitive conduct, improvements in productivity and all the other duties of the Office apart from the control of concentrations.

From the analysis undertaken it is estimated that the direct financial benefit to the economy in terms of GVA amounts to €35.5 million, representing an annual average economic benefit of nearly €7.1 million. On the other hand, the indirect economic benefits amount to €3.1 million per annum over the same period. As previously mentioned, these indirect effects capture the economic benefits attributed to the existence of the Office in deterring any form of anti-competitive behaviour. It follows that for the period 2014-2018 the aggregate benefits to the economy in terms of GVA attributable to the operations of the Office amount to an average of €10.2 million per year when accounting for the impact of both the direct and indirect effects of the Office. The benefits to the economy originating from the direct and indirect operations of the Office equate to an average total return ratio of 30.4 to 1 of which more than two-thirds of these benefits are attributed to the direct effects. The return ratios aim to capture the benefit to the economy in relation to a euro of budget allocated to the Office to cover the cost of its operations, such as salaries, rent and other overhead costs.

Table 1: Estimated Return Ratios for the period 2014-2018

	2014	2015	2016	2017	2018
Return Ratio (Direct Effects)	16.9	26.1	15.8	31.6	15.8
Total Return Ratio (Direct & Indirect effects)	25.6	34.7	24.6	41.2	26.0

It should be noted that the assumptions adopted to estimate the indirect effects may to an extent be viewed as conservative. In fact, a sensitivity analysis confirmed that on aggregate, for the period under review, the indirect effects could potentially be nearly €14.0million higher than those presented as the baseline scenario.

The role of promoting competition and safeguarding consumers' interest has a range of positive benefits on consumers including lower prices, quality assurance, increased choice, better innovation and improved efficiency. The scope of such impact assessments is to quantify these benefits and to therefore puts figures in perspective. Such analysis helps the policymaker to gauge the rate of return from the investment allocated to the Office. From a strategic planning perspective, this study could also help the Office and the Malta Competition and Consumer Affairs Authority to conduct forecasts and *ex-ante* estimates of pending market studies and market investigations, merger control and cases involving competition enforcement and through the above results, conduct annual costing estimates of the Office according to its targets. Furthermore, this analysis could also help the Office in setting case priority based on expected economic impacts.

This study has been undertaken by Dr Ian P. Cassar, a Senior Lecturer at the University of Malta. Where possible the methodology used is based on that developed and applied by the OECD on guiding competition authorities to assess the expected impact of their activities and on the input-output framework. It should also be noted that numerous robust assumptions were employed in the derivation of the resulting estimates. Nonetheless such methodologies are consistent with approaches now regarded by the literature as international good practices.