



**TRADE AND DEVELOPMENT COMMISSION**

Seventh session

18–22 May 2015

# Competition Policy and the Sustainable Development Goals\*

**DITC WORKING PAPER**

Division on International Trade in Goods and Services, and Commodities



UNITED NATIONS  
UNCTAD

\* DITC working paper series: Material for technical and analytical discussion.



## DITC Working Paper

### Competition Policy and the Sustainable Development Goals (SDGs)

Competition enhances efficiency, promotes innovation and leads to wider product choice and better quality, thereby improving consumer welfare. Competition policy may play a significant role in achieving sustainable and inclusive growth and development. This background note looks into how competition policy and law could foster such goals.

Competition policy is complementary to other government policies. Therefore, it should not be developed in isolation from economic, social and environmental realities and needs of a country. Competition policy and law could address challenges faced in these areas; and, when appropriately designed and effectively implemented according to the circumstances of a country, they may contribute to sustainable and inclusive growth and development.

For this purpose, prioritization of those sectors, which are most crucial to the people and the economy of a country, is important. Exemption of certain agreements and practices in agriculture, such as farmers' cooperatives, may improve smallholder producers' efficiency and income, thereby enhancing their standards of living.

Another significant factor in policy design is to consider both free and fair competition as two pillars of competition policy. Effective competition law enforcement and advocacy play a key role in realizing sustainable and inclusive development through the elimination and deterrence of anti-competitive practices.

Further, applying exemptions to business agreements, which promote economic progress, environmental protection, green technologies and products, from competition law enforcement are necessary to advance sustainable development goals.

#### *The role of Competition Policy within the Post-2015 Sustainable Development Agenda (SDA)*

The post-2015 SDA are intergovernmental negotiations that will adopt sustainable development goals (SDGs) and means of implementation necessary for achieving them. The Synthesis Report of the Secretary-General on the post-2015 SDA states:

*Sustainable development must be an integrated agenda for economic, environmental and social solutions. Its strength lies in the interweaving of its dimensions. This integration provides the basis for economic models that benefit people and the environment; for environmental solutions that contribute to progress; for social approaches that add to economic dynamism and allow for the preservation and sustainable use of the environmental common; and for reinforcing human rights, equality, and sustainability. Responding to all goals as a cohesive and integrated whole will be critical to ensuring the transformations needed at scale.<sup>1</sup>*

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<sup>1</sup> United Nations (A/69/700), The Synthesis Report of the Secretary-General on the post-2015 sustainable development agenda, *The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet*.

The post-2015 SDA is expected to be transformative, that is, it should transform economies, societies and the ways to tackle climate change with a view to making "patterns of growth more inclusive, sustained and sustainable".<sup>2</sup> These intergovernmental negotiations are expected to conclude by the end of July 2015 and to present a set of sustainable development goals (SDGs) and means of implementation necessary for achieving them. At the National level, governments will need to integrate these SDGs into their policies and laws and take measures towards achieving them.

In this connection, competition policies should complement other industrial and trade policies that are definitely necessary but not sufficient on their own to achieve sustainable and inclusive growth and development. For instance, as competition disciplines firms' behaviour, it will prohibit dominant firms from seeking to maintain or obtain monopoly rents, which go against the idea of sustainable and inclusive growth and let firms make unfair profits at the expense of consumers and potential competitors. High and anti-competitive profit mark-ups have been found to prevent growth, productivity and employment creation.<sup>3</sup>

The case of South Africa shows this clearly. The steel and chemicals industries in South Africa are internationally competitive. These are highly concentrated industries composed of national champions which have faced no domestic competitive pressure during the apartheid regime. Although they have been among the best performing manufacturing sectors in the country, they failed to supply competitively priced intermediate inputs to downstream industries.<sup>4</sup> The lack of domestic competition in the steel and chemicals industries prevented the establishment of links between the former and the downstream industries in a way that contributes to overall industrial and economic growth, and development of the country.

Additional ways in which competition policy and law may contribute to achieving sustainable and inclusive growth and development can be found at:

*(a) Prioritization of sectors that is essential for the poor and the economy*

Setting priority sectors would allow the competition agency to focus its resources to dealing with possible anti-competitive practices in those priority sectors. For instance, if the policy defines agriculture as a priority sector, this may contribute to the elimination of anti-competitive practices in that sector, thereby ensuring fair prices for consumers and producers, which would then improve their living standards.

Indeed, agriculture is a sector that is often subject to special treatment by competition laws and other sectorial laws due to its multi-dimensional nature. Agriculture involves economic activities that have both social and environmental dimensions. It provides livelihood for an important segment of the population in both developed and developing world. Furthermore,

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<sup>2</sup> United Nations (A/69/700), The Synthesis Report of the Secretary-General on the Post-2015 Sustainable Development Agenda, *The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet*, paragraph 54.

<sup>3</sup> Roberts, S., 'Competition Policy, Competitive Rivalry and a Developmental State in South Africa', in O. Edigheji ed. *Constructing a Democratic Development State in South Africa: Potentials and Challenges*, HSRC Press, Pretoria, 2010.

<sup>4</sup> Roberts, S., *Patterns of industrial performance in South Africa in the first decade of democracy: The continued influence of mineral-based activities*, 2007, *Transformation* 65: 4-34.

weaker bargaining power of smallholder farmers vis-à-vis providers of inputs such as fertilizers and agrochemicals, as well as buyers of their produce requires special attention of competition policy. To eliminate such imbalance, farmers organize themselves in cooperatives, which may facilitate collecting, processing, and marketing of their products; negotiate prices with buyers on their behalf; enable them to purchase inputs at lower prices; and provide them with access to credits and other financial services. The UNCTAD study on Mexico's Agricultural Development,<sup>5</sup> which includes an analysis of competition issues in the corn production and commercialization in Mexico, recommends the strengthening of existing associations or cooperatives of small corn growers and supporting the establishment of new associations and cooperatives in order to deal with imbalanced bargaining power vis-à-vis buyers; as well as unequal competition vis-à-vis large corn farms.

*(b) Complementarity with other government policies*

For instance, on the environmental dimension of sustainable development, no one would deny the need for research and development, eco-innovation and eco-friendly technologies. Competition policy may be designed so as to promote such businesses while environment policy may provide incentives to eco-friendly production processes, green sectors and products. However, such policies or incentives should neither be used as disguised protectionism nor to unnecessarily distort competition in the market. One objective of competition policy is to ensure efficient and well-functioning markets, which are crucial in promoting innovation and new technologies. Therefore, it is recognized by some countries that efficient environmental policy requires a strong competition policy implementation, which does not allow firms to abuse their market power or exclude competition in order to stimulate more innovation; does not approve anti-competitive mergers for the sake of innovation; and at the same time does not discourage horizontal or vertical cooperation between firms to engage in joint research and development, and eco-innovation activities.<sup>6</sup>

Summing up, Competition Policy will have a cross-cutting role within the integrated approach enabled by the SDA as it:

- increases competitive market pressures and corrects market failures that may lead firms to become more efficient, increase innovation and widen consumer choice and product quality.
- leads to firms producing healthier, safer, environmentally responsible and more ethical and equitable products, in order to satisfy the demands of more discerning and conscientious consumers.
- supports equitable outcomes, alleviating poverty and indirectly promoting sustainable and inclusive development.
- aligns business practices, especially those of big business, which can play a central role in determining the development path of a nation.

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<sup>5</sup> UNCTAD, Mexico's Agricultural Development: Perspectives and Outlook, United Nations, New York and Geneva, 2014.

<sup>6</sup> Knut Eggum Johansen, Director General, Norwegian Competition Authority, *Sustainable Development and Competition Policy*, Presentation at the European Competition Day, Paris, 18-19 November 2008 available at [http://www.konkurransetilsynet.no/ImageVaultFiles/id\\_1460/cf\\_5/Sustainable\\_Development\\_and\\_Competition\\_Policy.PDF](http://www.konkurransetilsynet.no/ImageVaultFiles/id_1460/cf_5/Sustainable_Development_and_Competition_Policy.PDF).