#### Competition Commission of India



#### Importance of Self Regulation

by

#### K.K. Sharma Director General & Advisor (Law)

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# Why Competition Law

 Resources are finite Economic well being  $\succ$  Better off societies  $\succ$  Worse off societies Maximizing societal welfare > Allocative efficiency > Productive efficiency > Dynamic efficiency > Innovation Welfare maxima limited by resources



#### **Benefits of Competition** Promotes efficiency and innovation Ensures abundant availability of goods and services of acceptable quality at affordable / lower prices Offers wider choice to consumers Attempts to satisfy more and more wants with less and less consumption Positive impact on environment



#### Enforcement

- Enact and enforce a competition law and
- Educate and promote self regulation
  Is self regulation possible?
- Can it be enough?
- Human nature
- Cost of non-compliance vs self regulation
- Cost of compliance vs self regulation



### **Cost of Non-Compliance**

Fines/penalties Imprisonment, if applicable Loss of reputation Effect on business dealings Wastage of resources-money, manpower- which could have been used more gainfully Can't be debited to BOA-violation of law



### **Cost of Compliance**

 Regular staff/executives Compliance officer Resources- hiring/training of awareness and compliance of competition law Marginal increase in cost for competition audit(including IT) Debited as business expenditure



#### **Factors**

Self compliance = f (cost of noncompliance, cost of compliance, effectiveness of detection) Cost of non compliance – high Self compliance high(proportional) Cost of compliance – high - Self compliance low(inversely proportional) History of direct taxes



### Comparison

Trade off between cost of noncompliance and cost of compliance is obvious in competition law violations
Hefty penalties/imprisonments(in some jurisdictions)
Cost of non compliance is too huge in comparison to cost of compliance



#### **Effectiveness of Detection**

- Self compliance = f (effectiveness of detection)
- Effectiveness of detection-high
  - Self compliance-high and vice versa
- Self compliance will also depend on CCI
- Savings to society
  - Cost of enforcement & on enterprises in terms of fines/imprisonment etc.



#### **Characteristics of Cartels-1**

 Brazen nature
 Involvement of senior executives
 Avoidance of strong anti trust jurisdictions
 Taking cover under associations





#### **Characteristics of Cartels-2**

Fixing prices
Global volume allocation
Score sheets and audits
Compensation mechanism
Retaliation for cheating /policing the agreement



#### **Characteristics of Cartels-3**

The structure of cartels
Even the large buyers can be victims
Includes large publically held companies
Repeat offenders





#### Level of involvement

 Individuals whose employment is dependent on corporate/business unit profitability Profile can be extremely varied May be - Highest level - Middle level - Lower level



#### **Different Cartels-1**

Year	Cartel	Position(s) of employees involved
2009	LCD SCREENS*#	President of Subsidiary; Executive Vice President of Sales and Marketing; Vice President of Sales Planning
2008	AIR CARGO#	Director of Sales and Marketing; Commercial General Manager
2007	PASSENGER FUEL SURCHARGE (BA/VIRGIN)	Head of Sales; Commercial Director; Head of Communications



#### **Different Cartels-2**

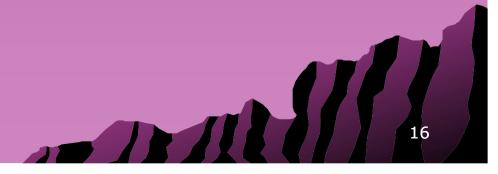
Year	Cartel	Position(s) of employees involved
2002	AUCTION HOUSES	Chairmen
2007	LIFTS & ESCALATORS	National Sales Managers
2001	VITAMINS*#	President of Divisions; Division Managers; Marketing Directors
2001	GRAPHITE ELECTRODES*#	President ; Chairman; Senior Vice President; General Managers; Local Sales Managers



#### **Different Cartels-3**

Year	Cartel	Position(s) of employees involved
2000	LYSINE (AMINO ACIDS)*#	Executive Vice President; Group Vice President

\*Some involvement of subsidiary companies # Atleast one employee imprisoned in the United States





### **Effective Self Regulation**

#### Objective

- Prevention of competition law violations
- Not to enable enterprises committing violation to escape punishment
  - Detect violation as soon as possible
    - Early warning systems (EWS)



### **Requirements-1**

- Clearly established compliance standards
- Assigning overall responsibility to oversee compliance to high-level executives within the company
- Exercising due care not to delegate responsibility to employees who have a propensity to engage in illegal conduct



#### **Requirements-2**

 Taking reasonable steps to communicate standards and procedures effectively to all employees

 Taking reasonable steps to achieve compliance with standards





#### **Requirements-3**

 Consistent enforcement of standards through appropriate disciplinary mechanism and

 Taking reasonable steps when an offense occurs to respond and to prevent future violations





## Warning Signs-1

 Activities of trade associations
 Sales transactions between the enterprise and the competitorespecially towards the close of the year

Data on market share

 Calls to senior executives from callers giving strange sounding names or refusing to identify



## Warning Signs-2

 Sudden unexplained price increases
 Copies of announcement of competitors prices in the files of your enterprise



# Impact of Good Self Regulation



Difference between survival and possible extinction of an enterprise
Massive fines
Possible jail terms in many jurisdictions
Reputation





#### **Initiatives by CCI**

Engagement of stake holders
A study on compliance by ICAI
Advocacy booklet "Competition Compliance Programme"
Educative advocacy seminars
Active engagement with ICAI



## Likely Employees

Those doing sales and marketing;
 Anyone having direct contact with competitors
 Those engaged in setting up and

 Those engaged in setting up and operation of distribution arrangements





### **Assessing Agreements**

 Keep record of all agreements for competition audit High commercial value agreements should be evaluated from competition angle by senior executives Time bound review of these agreements-may be annual or once

in two years/five years



#### Coordination

- Liaison of marketing department with legal department
- Regular competition review of all agreements – may be in one, two or five years
- If resources don't permit in house audit, can be given to outsiders
- Regular screening of e -mails

 How well are officers and employees aware of the chief executive's determination and commitment as regards compliance?

 Do officers and employees have a clear understanding of what kind of conduct violates competition law?

- Do officers and employees properly recognize the 'dos and don'ts' of preventing violations of law?
- Is compliance accountability accurately perceived at all levels of management?
- To what extent do the enterprise's business practices conform to the provisions of competition law and other related regulations?

 How high is the enterprise' level of conformity' compared to other enterprises engaging in the same business activities?

- How many violations took place and how serious were they?
- What kind of corrective action was taken against those violations, and how effective have they been?

 How often is internal monitoring carried out and has the monitoring proved effective in preventing and detecting violations of law?

 To whom and to what extent is compliance education provided, and how effective are education programmes?



### **Associations-Red Flags-1**

 Past, current or future prices What constitutes `fair profit level' Pricing policy and actual costs of individual enterprises Possible increase or decrease in prices Standardization or stabilization of prices



### **Associations-Red Flags-2**

 Bidding prices for projects Collusive tendering (bid rigging) Standardization of credit and trade terms Control of production Division or allocation of markets Select customers to deal or not to deal because of the above reasons



#### **Compliance Officers**

 Delegation of authority to enforcement complaint programme
 Independent professional with expertise in compliance
 Focal point for compliance





#### **Compliance Manual**

Up to date compliance procedure
Regular updating
Compliance check list
Regular monitoring





#### **Competition Act,2002**

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.....it shall be the duty of the Commission to...., promote and sustain competition, protect the interest of consumers and ensure freedom of trade carried on by other participants, in the markets in India;



# THANKS kksharmairs@gmail.com www.cci.gov.in

