

## Competition Policy and Deregulation

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Today, I would like to talk to you about Competition Policy and Deregulation in Japan.

It is said that Japan has far too many administrative regulations and guidelines for its multiple industries. That is why there are such a large number of companies and people calling for deregulation. The Management and Coordination Agency reported that as of March, 1995, there were precisely 10,760 government permits and licenses only 185 less than in the previous year.

So just why are there so many regulations in Japan?

Since the end of the Second World War, the Japanese government has attached greater importance to producers than to consumers in order to rebuild industry. The food control system, regulations of interest rate and the business licensing system were all part of this industrial policy. Since this old structure still remains, the number of regulations has increased. For instance, the taxi business used to have to abide by a policy of the same fare for the same region, which means that fares are licensed. Even though a taxi company might have made an application for a reduction in fare, the authorizing Ministry of Transport would not grant permission. Similarly, liquor shops and rice shops require licenses and it is quite difficult to open new shops. There are also some items including dairy product and grains that Japanese dealers and producers can not import freely. These regulations have limited competition among dealers and producers, so it is difficult to lower prices. This price variance between the domestic and overseas market has attracted considerable criticism.

Now the administration is revising its policy for giving priority to producers, and shifting to one that serves consumers. This is why deregulations are such a serious policy issue. In Japan, the movement for deregulation became active at the end of the 1970s. One factor for that is the ressure from abroad. Even though Western companies have been trying to penetrate the Japanese market, it has been very difficult because of these various regulations. On the contrary, Japanese export surpluses to these nations are increasing. Therefore, Western nations are growing impatient with the status quo, so the Japanese government has to do something for this.

But the pressure has been coming not only from abroad but also from consumer dissatisfaction. Despite the yen's extreme appreciation and its strong purchasing power, Japanese consumers do not feel their own

prosperity. This is because prices in Japan are much higher than those abroad. People suspect this price disparity, is caused by the wide spread network of regulations.

Naturally, there are disadvantages of having so many regulations. For instance, prices are artificially maintained to protect manufacturers, meaning higher prices for the consumers, and when regulations block new entries into an industry, this dampens economic vitality such as technological innovations produced by competition.

The Advisory Group for Economic Structural Reform, a private advisory panel to the Prime Minister, compiled a report on economic reform in December, 1993 which urged aggressive plans for deregulation. The council recommended the abolishment of regulation, in principle, and the minimization of social restrictions. The government has since launched a campaign to promote deregulation. Of course some of the restrictions are necessary, for example, regulations about medicine to protect public health or on liquid waste which affects society. But there are many economic regulations which should be abolished.

Although the trend is toward deregulation, it is difficult to know how far to go. One problem is that bureaucrats do not want to relinquish power. In addition, if regulations are abolished or eased, and more new companies are sure to gain access to various industries, companies and industrial associations with vested interests may oppose this movement.

To promote deregulation and competition, the role of the Anti-monopoly law and the Fair Trade Commission has become more important. The Fair Trade Commission has reviewed government economic regulations from the viewpoint of competition policy in accordance with the recommendations of OECD Council, requesting the ministries and agencies concerned to reform anti-competitive regulations. "As industries move from price regulation to price competition, the law of collusion, boycott and predatory pricing picks up where agency price regulation left off." (Herbert Hovenkamp)

In this respect, we can see a little change in the activity of the Fair Trade commission. Formerly, the Fair Trade commission(FTC) has often been hindered by the Ministry of International Trade and Industry's industrial policy of putting priority on economic growth, so FTC has not functioned very effectively. FTC has sometimes tended to wink at the production adjustment among producers for maintaining prices and collaborating when bidding on public works. As a result, consumer are forced to buy items at higher prices. But, recently the enforcement of anti-monopoly law by the FTC has been strengthened gradually, even though it is not sufficient.

I would now like to speak about deregulation in the electric power industry as an example of such deregulation. There are 10 vertically integrated private companies in Japan, which generate, transmit, distribute and supply electricity to final consumers. Although the electric power business is regarded as a typical example of a natural monopoly, it is still necessary to make efforts to introduce competition and reduce costs as much as possible. For this purpose, the Electricity Utility Industry Law was amended in April, 1995, taking effect in December, 1995.

The power generation sector has been deregulated, allowing the companies to generate electricity and sell it to general electric utilities through open bid held by general electric utilities.

The first bidding was held in 1996. Even though the amount of interest shown by the general electric utilities was very small, many companies participated in this bid. The result was that steel and petroleum companies made a successful bid. It was said that this bid was held only for covering the shortage of supply of the general electric utilities.

The power supply to specific regions has also been deregulated, allowing the independent power producers (IPP), namely the companies running medium/small power sources (cogeneration etc), to generate electricity and to supply it to a specific area. This system-specific power distribution business has introduced direct competition at the retail level between general electric utilities and independent power producers (IPP); the first instance is the SUWA energy service which was approved by the Ministry of International Trade and Industry (MITI) on June 27th, 1997. It has a plan to generate 3000kilowatts by using cogeneration equipment, supplying steam for heating and electric power to a hospital and health center for the elderly. It will start in February, 1999.

In spite of this deregulation in the power generation sector and retail market, it is doubtful whether it will bring much benefit to consumers, for whom the competition policy should operate.

First of all, as to the competition in the power generation sector, the general electric utilities can purchase electricity economically on the wholesale market under the bidding system, so they can supply it economically to consumers. But they are also able to keep the profits gained under the bidding system for themselves. In this case, deregulation is not for the benefit of the consumer, but conversely for the electricity industry.

From the standpoint of competition policy, it is most important to introduce competition at the retail level. It is necessary to allow all power producers, including wholesale power producers such as steel and petroleum companies and medium/small power sources (cogenerations, even), to supply electricity at the retail level, by admitting retail wheeling [dealing].

Consumers can choose their electricity supplier and get cheap, high quality electricity.

This is the main aim of deregulation, in the electric power industry, and is in total harmony with the competition policy. But it seems rather difficult in Japan to bring real competition into the regulated industries for the genuine benefit of the final consumer. Unfortunately, this leaves Japan as a country of toothless deregulation and more positive steps must be taken.