

PHILIPPINE COMPETITION BULLETIN

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**PHILIPPINE
COMPETITION
COMMISSION**

EDITORS' NOTE

This special issue of the Philippine Competition Bulletin features the National Competition Policy (NCP), which lays down a whole-of-government approach to promote competition in the market through pro-competitive policies, rules, regulations, and issuances. The NCP is envisioned to prevent market distortions and ensure an even playing field among businesses.

Issued as Joint Memorandum Circular No. 01-2020, the NCP was developed by the National Economic and Development Authority and the Philippine Competition Commission (PCC), in line with the objectives of Republic Act 10667 or the Philippine Competition Act, and to assist in the economic recovery from the COVID-19 pandemic.

This special issue aims to guide national government agencies, government-owned or -controlled corporations, and local government units in their compliance with Administrative Order No. 44, s.2021, which directs all entities in the Executive branch to adopt and implement the NCP.

To read the NCP in full, visit the PCC website: <https://www.phcc.gov.ph/jmc01-2020-ncp-pcc-neda/>. ■

About the Philippine Competition Act

Republic Act 10667, also known as the Philippine Competition Act (PCA), is the primary competition law in the Philippines. Enacted in 2015, this law defines, prohibits, and penalizes anti-competitive practices to promote and protect fair market competition in the country.

The PCA prohibits:

- anti-competitive agreements such as price-fixing, bid-rigging, output limitation, and market sharing, which restrict access of consumers to affordable and quality products and services;
- abuse of dominant position in the market, which can take the form of predatory pricing, price discrimination, and exploitative behavior towards consumers, customers, or competitors; and
- mergers and acquisitions that substantially prevent, restrict or lessen competition in the relevant market. When reviewing such transactions, the PCC takes into account factors such as relevant market, existing level of competition, barriers to entry, switching cost for customers, and the potential for collusion.

The PCA covers any person or entity engaged in trade, industry, and commerce in the Philippines. It also applies to international trade that may impact trade, industry, and commerce in the Philippines. It does not, however, cover agreements or arrangements between employees and employers, such as collective bargaining agreements and other acts affecting conditions of employment.

About the Philippine Competition Commission

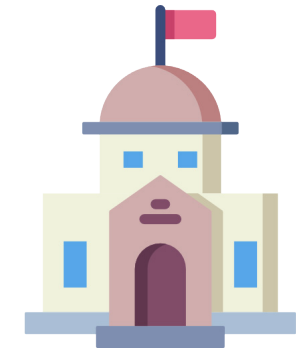
The Philippine Competition Commission (PCC) is the primary enforcer of the PCA. Organized in 2016, it is an independent, quasi-judicial body with original and primary jurisdiction over issues relating to competition. It aims to protect consumer welfare and promote a competitive business environment.

The mandate of the PCC includes the following:

- Review of mergers and acquisitions;
- Investigation and adjudication of antitrust cases;
- Imposition of sanctions and penalties;
- Conduct of economic and legal research on competition-related matters;
- Issuance of advisory opinions; and
- Advocating pro-competition culture in government and businesses.

The PCC is also the chief implementor of the National Competition Policy (NCP), which is contained in Joint Memorandum Circular (JMC) 01-2020 of the National Economic and Development Authority (NEDA) and the PCC. Under Administrative Order No. 44 (series of 2021), all national government agencies, government-owned or -controlled corporations and local government units are directed to adopt and implement the NCP. ■

PRO-COMPETITIVE POLICIES AND GOVERNMENT INTERVENTIONS



Joint Memorandum Circular (JMC) No. 01-2020 contains the National Competition Policy (NCP), developed by the National Economic and Development Authority and the Philippine Competition Commission (PCC). It seeks to reinforce the implementation of the Philippine Competition Act by directing national government agencies (NGAs), government-owned or -controlled corporations (GOCCs), and local government units (LGUs) to adopt and implement pro-competition policies and regulations.

The NCP lists three key elements in its implementation. The first deals with pro-competitive policies and government interventions:

1. *All policies, law, rules and regulations, issuances and other interventions shall promote market efficiency and enhancement of consumer welfare, and shall not distort competition by creating barriers to entry, promoting collusive market outcomes, e.g., cartels, or restricting trade, except when the restrictions are proven consistent with the promotion of consumer welfare, or when the benefits to the community outweigh the costs, or when the objectives of the policies and government interventions can only be achieved by restricting competition.*

Fair competition in markets leads to more choices, lower prices, and higher quality of goods and services for consumers. Businesses also benefit from competition: a culture of competition encourages innovation and makes it easier to start a business and to compete with bigger enterprises. With the adoption and implementation of the NCP, government institutions are enjoined to participate in cultivating a culture of competition through pro-competitive policies, rules, and regulations.

Section 5.2 of the NCP enumerates the responsibilities of the institution covered by the NCP. Broadly, these include the following:

- Review and formulation of relevant policies, rules and regulations, issuances and other intervention that affect and foster competition;
- Amendment, repeal, or removal of policies and other interventions that can substantially restrict, prevent or lessen competition; and
- Ensuring a level playing field among local and foreign traders through a competitive selection process.

A whole-of-government approach is seen as the way to mainstream competition. Such approach involves NGAs, GOCCs, and LGUs through policymaking, sector regulation, and enforcement that weave in competition principles, as reiterated by the NCP.

Pro-competition issuances and interventions from NGAs, GOCCs, and LGUs are seen to foster a competitive playing field that in turn encourages inclusive economic growth and poverty reduction in the country. ■

NATIONAL COMPETITION POLICY NOW MANDATORY FOR PUBLIC SECTOR ADOPTION, IMPLEMENTATION

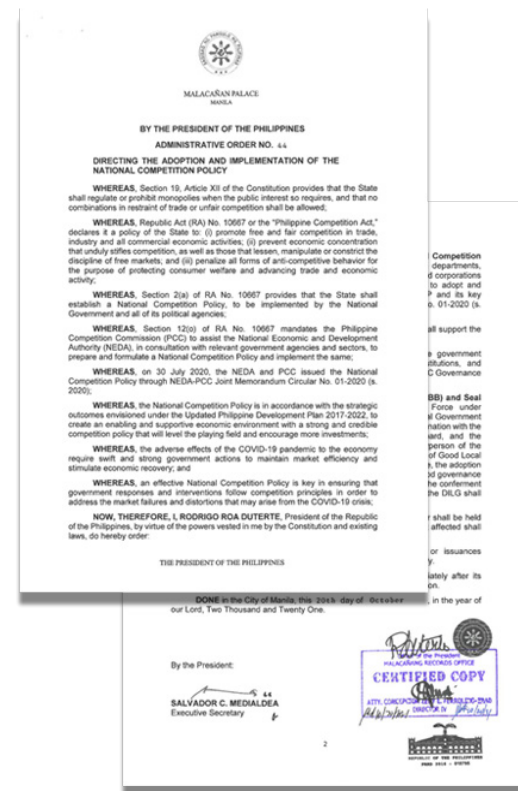
Government entities in the Executive branch are now mandated to incorporate competition principles in the formulation and execution of policies and regulations. This came about after the Office of the President issued Administrative Order (AO) No. 44 on October 20, 2021, instructing agencies to implement the National Competition Policy (NCP).

The NCP complements the Philippine Competition Act (PCA) and the Philippine Development Plan 2017-2022 in guiding the design of government interventions, especially those relating to the economic recovery of vulnerable sectors like micro, small, and medium enterprises. It recognizes the need for competition policy to guide decisions and strategies in helping restore market efficiency, as the country deals with economic challenges brought on by the COVID-19 pandemic.

The PCC and the National Economic and Development Authority (NEDA) issued a joint memorandum circular (JMC) in July 2020, directing all national government agencies, government-owned or -controlled corporations, and local government units to comply with the NCP.

The NCP implementation will now form part of the criteria on good governance conditions for the grant of incentives to government agencies. Under Section 2 of AO No. 44, the adoption of and compliance with the NCP and its key elements, as far as practicable, are to be integrated with the performance-based bonus (PBB) to government personnel and in the conferment of the seal of good local governance (SGLG) on cities and municipalities.

In March 2022, the Inter-agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems under AO No. 25, s.2011 released Memorandum Circular (MC) No. 2022-1, which contains the guidelines for the grant of the PBB covering fiscal year 2022, including provisions for compliance with the NCP. ■



Competition policy integrated in DAP's advanced RIA course

The Development Academy of the Philippines (DAP), in partnership with the PCC, has included competition impact assessment (CIA) in its advanced regulatory impact assessment (RIA) course starting 2021.

The RIA examines policies and regulations of an agency, and evaluates how they address issues in the sector. With the inclusion of the CIA, policies and regulations are now assessed through the lens of competition policy. The CIA seeks to screen policies to see if they have the potential to restrict or harm competition, and consequently address them or develop alternatives to such.

Evaluation of a policy's compliance with RA 10667 or the Philippine Competition Act enables regulatory reform to promote competition, protect consumers, and restrict anti-competitive activities within the jurisdiction of the regulator.

The CIA was introduced during the 14th iteration of the advanced course on RIA on September 20-24, 2021 with 53 participants from the Department of Trade and Industry and the LGUs of Guimaras, Iligan City, Legazpi City, and Santa Barbara. Two more batches consisting of participants from other regulators followed in November 2021. Staff from the PCC served as resource speakers and facilitators.

The advanced course on RIA trains policy staff of LGUs, NGAs, line and staff bureaus, GOCCs, and legislative offices in performing a more comprehensive RIA through different analytical methods.

The course is conducted by DAP's Modernizing Government Regulations Program. ■

COMPETITIVE NEUTRALITY

The second pillar of the National Competition Policy is competitive neutrality. Under Section 5.1 of the PCC-NEDA JMC 01-2020:

2. Competitive Neutrality. GOCCs shall not enjoy net competitive advantages or be subjected to disadvantages over private sector businesses simply by virtue of public sector ownership, unless it can be clearly demonstrated that the greater public interest will be served and there is lack of commercial viability.



Case study

THE EFFECTS OF ANTI-COMPETITIVE REGULATIONS IN THE CONSTRUCTION SECTOR

In December 2016, the PCC submitted to the Supreme Court an amicus curiae (Latin for “friend of the court”) brief on the Philippine Contractors Accreditation Board (PCAB)-Manila Water Company Inc. case.

The PCAB is an implementing arm of the Construction Industry Authority of the Philippines (CIAP) and is mandated to issue, suspend and revoke licenses of construction contractors. Through the implementing rules and regulations (IRR) of Republic Act 4566 or the Contractors’ License Law, the PCAB introduced the nationality requirement for contractors.

Regular licenses are issued to construction firms with Filipino sole proprietorship or a partnership/corporation with at least 60 percent Filipino equity participation; the validity for such licenses is maintained through annual renewal. On the other hand, foreign contractors, joint ventures, or consortiums are given special licenses which are only valid for one project each. A huge gap is also observed in the costs for application; regular licenses cost PHP 14,730 while special licenses fetch PHP 176,760. This makes the special license a barrier to entry, a type of anti-competitive conduct that restricts other players from entering the market and could lead to monopolies.

The construction industry plays a significant role in the country’s economic development as it caters to the need of other industries such as transportation, power, housing, water, and electricity, to name a few. With anti-competitive government restrictions such as requiring special licenses for foreign contractors, inclusive economic growth is hampered.

The restriction and cost imposed by the nationality requirement discourage other entrants to the construction sector. As a result, only a few foreign contractors participate in the local construction market. In a survey of PCAB’s data of issued licenses, new special licenses accounted for just 10 to 15 percent of total licenses from 2013 to 2015.

This also directly affects customers as they are subjected to perennial infrastructure-related concerns. Restricted competition in markets leads to inferior quality and high cost of goods and services.

There is much to gain from the lifting of the nationality requirement for licenses. For one, there is an estimated additional PHP 210 billion worth of private construction activities (residential condominiums, commercial, industrial, and institutional segments in particular). The entry of foreign contractors also provides opportunities for knowledge transfer and new and advanced technologies in the construction sector.

In 2020, the Supreme Court ruled that certain anti-competitive regulations under the Contractors’ License Law were unconstitutional. The PCC’s amicus curiae brief was cited in the ruling, thus voiding the nationality requirement of the PCAB. ■

Source:

PCC (2017), Policy Note 2017-01: Anti-Competitive Effects of Regulatory Restrictions – The Case of the Construction Sector, <https://www.phcc.gov.ph/policy-note-no-1-anti-competitive-effects-regulatory-restrictions-case-construction-sector/>

What is competitive neutrality?

A fundamental principle of competition is that all enterprises—whether public or private, foreign or domestic—face the same set of rules. The Organisation for Economic Co-operation and Development (OECD) defines competitive neutrality as a principle in which all enterprises are provided a level playing field with respect to a state’s (including central, regional, federal, provincial, county, or municipal levels of the state) ownership, regulation, or activity in the market. Ensuring a level playing field is key to making competition work and contributing to economic growth.

Between SOEs and private businesses

Government actions may impact the level of competition in markets, benefiting some enterprises over others. State-owned enterprises (SOEs), for instance, may enjoy rights and privileges that are unavailable to private market players. This could give rise to undue advantage by SOEs, which may distort competition in markets.

Government support may come in the form of subsidies, favorable regulatory tax treatment, and loan guarantees among others.

To ensure optimal outcomes, SOEs should compete with private players on fair terms, while taking into consideration their contribution to policy objectives. However, governments may decide not to abide by the principle of competitive neutrality in cases where granting of special rights and privileges to SOEs may be necessary to achieve socioeconomic or development policy objectives or to correct market failures.

Key distortions of competition by SOEs

Departures from competitive neutrality, whether intentional or not, can result in the distortion of competition in markets. Competitiveness of SOEs can be boosted or weakened through financial treatment, asymmetrical regulation, and corporate governance. Some examples are:

- *Monopolies and advantages as incumbents.* SOEs may have exclusive or monopoly rights over certain activities, foreclosing competitors’ access to the market.
- *Preferential treatment under sector regulation.* SOEs and private entities in the same sector or industry may be subject to different regulation (e.g., exemptions on licensing, reporting requirements).
- *Lack of separation between regulatory and commercial functions.* SOEs may have mandates on services and other non-commercial activities that may be difficult to distinguish from commercial activities.
- *Financial treatment.* SOEs may receive state subsidies not accessible to other market participants or may benefit from other government financial assistance (e.g., favorable tax regimes).

The updated Philippine Development Plan (PDP) 2017-2022 cites cross-cutting strategies to promote competitive neutrality:

- The Governance Commission for GOCCs (GCG) and the Department of Budget and Management (DBM) will continue to review the mandates of GOCCs within their respective jurisdictions and make appropriate recommendations to the President to ensure, among others, the separation of proprietary and regulatory activities.
- The GCG and the DBM will lead in the drafting of guidelines on the grant of subsidies to GOCCs based on an assessment of the nature, form, extent, and costs and benefits of these government subsidies and interventions and their impact on the business environment. They will also implement regulatory and non-regulatory measures to neutralize any advantage or disadvantage that may accrue due to public sector ownership. ■

What are SOEs?

A state-owned enterprise or SOE is an enterprise entirely or partly owned by the state. It can be organized in various forms and serve a range of functions. Some countries use different terms to refer to SOEs (e.g., state-owned companies, publicly owned corporations, government-linked monopolies). In the Philippines, SOEs are known as government-owned or -controlled corporations (GOCCs).

As publicly owned entities, SOEs play an important role in many economies, contributing to development goals. In Southeast Asia, SOEs are still a major part of many economies, remaining indispensable players in key sectors. In the Philippines, there are over 150 GOCCs under the oversight of the Governance Commission for GOCCs (GCG).

Case study
PHLPOST AND THE SMALL-PACKAGE DELIVERY SERVICES SECTOR

In 2020, the Organisation for Economic Co-operation and Development (OECD) published its key findings and recommendations to boost the country's logistics sector and level the playing field between private and state-owned firms in this industry.

One of the reports, titled "Competitive Neutrality Reviews: Small-Package Delivery Services in the Philippines," focused on small-package delivery services to demonstrate the application of competitive neutrality, in this case between private firms and the state-owned Philippine Postal Corporation (PHLPost).

Established in 1992, PHLPost is a company wholly owned by the state. It is the designated postal operator for the country's obligations to the Universal Postal Union.¹ With one of the largest networks in the country, it operates in three business areas: mail services, express and logistics services, and payment and retail services.

A significant part of the logistics sector, small package delivery services play an important role in the fast-growing e-commerce sector in the Philippines. According to the OECD report, several factors prevent the existence of a level playing field in the sector, which may harm competition and prevent consumers from fully benefiting from the developing e-commerce sector. Some of these advantages are:

- Regulatory treatment. PHLPost is exempted from licensing requirements to operate express messenger or delivery services since its charter explicitly assigns it the right to operate small package delivery services. According to OECD, PHLPost's commercial activities (e.g., courier services) should be subject to comparable licensing requirements that other players in the market comply with.
- Tax treatment. To maintain a level playing field, the general principle is that SOEs engaged in economic activities should not be exempt from general laws and tax regulations. As such, there should be no discrimination between SOEs and private players. While GOCCs such as PHLPost are not generally exempted from income tax, PHLPost is exempted from several taxes (e.g., duties on imported equipment, local government fees). OECD's recommendation is to review the exemptions and amend legal provisions accordingly.
- Subsidies and guarantees. PHLPost has received direct subsidies as well as compensation for its services to other government agencies. In terms of guarantees, while the Postal Service Act provides for government guarantee for PHLPost's obligations should it be necessary, the report noted that PHLPost appears not to have benefitted from such potential advantage.

The general principle is that SOEs' liabilities should not be automatically guaranteed by the state, as such treatment may distort the market (e.g., lowering SOEs' costs compared to competitors). OECD's recommendation is to amend the Postal Service Act to remove any preferential financial treatment to PHLPost.

- Advantage in public procurement. The general principle is that when SOEs (as bidder or procuring entity) engage in public procurement, the governing procedures should be competitive, non-discriminatory, and transparent. While public procurement rules apply to all public entities in the Philippines, no specific guidelines for GOCCs have been issued yet. GOCCs, in general, have advantages, as they are not required to register with the Philippine Government Electronic Procurement System (PhilGEPS), which is required for private companies. The government and a GOCC can also enter an agency-to-agency contract to avoid the general requirement for a public tender. Such advantages may reduce costs for GOCCs like PHLPost. More importantly, agency-to-agency arrangements may offer an incentive for agencies to engage with GOCCs instead of holding public procurement that involve private companies.

The OECD report noted that the impact on the small package delivery services sector is limited as PHLPost's engagement with government agencies is generally on mail services. However, it recommended that GOCCs, including PHLPost, be subjected to comparable requirements imposed upon private bidders, and to clearly define strict conditions under which agency-to-agency contracts may be allowed.

The OECD Competitive Neutrality Reviews: Small-Package Delivery Services in the Philippines can be downloaded from <https://www.oecd.org/fr/pays/philippines/fostering-competition-in-the-philippines.htm>. ■

1. The Universal Postal Union is a United Nations specialized agency and the postal sector's primary forum for international cooperation.

ENFORCEMENT OF COMPETITION-RELATED LAWS AND ISSUANCES



Ratified in 2015, the Philippine Competition Act (PCA) is a game-changing legislation as it serves as the framework for the country's competition policy. Its key prohibitions include entering into anti-competitive agreements, abusing a dominant market position, and forming anti-competitive mergers and acquisitions (M&As).

The PCA also provided for the establishment of the Philippine Competition Commission (PCC), an independent quasi-judicial government agency mandated to enforce the PCA and implement the National Competition Policy (NCP). Under Sec. 12 of the PCA, the PCC shall have original and primary jurisdiction in its implementation and enforcement, and is mandated with powers and functions to carry out the competition law in the country.

Two provisions in the PCA promote collaboration between the PCC and other government offices for the conduct of pro-competitive activities. Under Sec. 12 of the PCA, the PCC may "[d]eputize any and all enforcement agencies of the government or enlist the aid and support of any private institution, corporation, entity or association, in the implementation of its powers and functions." Sec. 32 states that "the Commission and the sector regulators shall work together to issue rules and regulations to promote competition, protect consumers, and prevent abuse of market power by dominant players within their respective sectors."

With regard to cooperation and collaboration, and with respect to the jurisdiction of the PCC, the third key element of the NCP deals with the engagement of and support from government agencies for the enforcement of the PCA. Specifically, the NCP states that, "all government agencies shall uphold the original and primary jurisdiction of the PCC over the enforcement and implementation of the PCA provisions."

Government agencies are tasked to carry out activities that promote competition in their respective areas of responsibilities, communicating and cooperating with the PCC, and assisting the PCC in executing their orders and decisions related to competition enforcement.

With the whole-of-government approach in mind, the third key element of the NCP is expected to deliver a coherent and comprehensive implementation of the PCA by the public sector, which aids in fostering a culture of competition in the country. ■

PCC and its #PartnersForCompetition

As a strategy for more streamlined modes of cooperation and communication, the PCC establishes partnerships with agencies and institutions, both local and international. Through memoranda of agreement (MOAs) and memoranda of understanding (MOUs), the PCC and other institutions commit to strengthen competition policy enforcement and coordination, and advocate for the implementation and enforcement of the competition policy in their respective areas and sectors of jurisdiction.

In these partnerships, the PCC and the institutions agree on consulting the other party in policy coordination, notification of matters, support to investigation and enforcement guided by relevant laws, creation of joint task forces, and conduct of advocacy and capacity-building activities.



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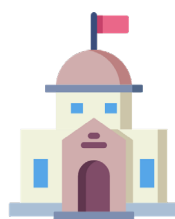
To date, the PCC has inked MOAs with the following offices and institutions in the Philippines to engage and harmonize efforts in upholding competition policy and its enforcement:

- Bases Conversion and Development Authority
- Bangko Sentral ng Pilipinas
- Commission on Audit
- Department of Agriculture
- Department of Information and Communications Technology
- Department of Energy
- Department of Justice
- Department of Trade and Industry
- Energy Regulatory Commission
- Integrated Bar of the Philippines
- Insurance Commission
- National Privacy Commission
- Office of the Ombudsman
- Office of the Solicitor General
- Public-Private Partnership Center
- Philippine Statistics Authority
- Securities and Exchange Commission
- University of the Philippines College of Law

The PCC has also set up partnerships with local and international authorities through MOUs for cooperation and coordination. The following institutions are also partners of the PCC:

- Competition and Consumer Commission of Singapore
- Hong Kong Competition Commission
- State Administration for Market Regulation (SAMR) of People's Republic of China
- Philippine Chamber of Commerce and Industry
- Philippine-American Educational Foundation ■

WHAT ARE THE RESPONSIBILITIES OF YOUR AGENCY/GOCC/LGU UNDER THE NCP?



To initiate and implement **pro-competitive policies** and interventions



To promote **competitive neutrality** [Governance Commission on GOCCs (GCG) and Department of Budget and Management (DBM), in consultation with GOCC's respective parent-agencies]



To assist PCC in enforcing the NCP and attain the objectives and purposes of the PCA

PCC offers online course on NCP, CIA checklist

The PCC launched a free self-paced online course on the National Competition Policy (NCP) and an online Competition Impact Assessment checklist on July 20, 2022 to enhance capacities and provide guidance to all stakeholders in government in line with the rollout of the NCP, pursuant to Administrative Order No. 44, s.2021.

Government employees, especially the focal personnel designated for the implementation of the NCP in their respective agencies, are encouraged to enroll in "Leveling the Playing Field through the National Competition Policy (NCP): A Blended Learning Course for Government Agencies," the newest offering in PCC's iCLP: Online Learning Hub on Competition Law and Policy.

To aid agencies in the review of their policies, issuances, rules, and/or regulations relevant to market competition, the PCC also released an online Competition Impact Assessment (CIA) checklist.

To enroll in the course on the NCP, visit <https://iclp.phcc.gov.ph> or scan the QR code:



To access the online CIA checklist, visit <https://bit.ly/PCC-CIAchecklist> or scan the QR code:



As may be necessary to carry out the objectives of the National Competition Policy, the NEDA and the PCC shall provide guidelines.

The interpretation of the provisions of the NEDA-PCC JMC 01-2020 or guidelines to be issued shall be referred to NEDA and PCC for joint resolution.

Reach out through any of these email addresses for questions or clarifications:

- AO 25 IATF Guidelines – Corporate Planning and Management Division (cpmd@phcc.gov.ph)
- NCP course and other CLP trainings – Capacity Building and Advocacy Division (trainings@phcc.gov.ph)
- CIA checklist – Economics Office-Policy and Markets Division (eo-pmd@phcc.gov.ph)
- Other queries/concerns – queries@phcc.gov.ph



Ensuring businesses compete and consumers benefit

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