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The Americas

Competition in Chile
The shine comes off

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CHILE likes to see itself as a model of free-market efficiency in a region hamstrung by protectionism and collusion. That makes a ruling on January 31st by the country's anti-trust regulator particularly embarrassing. After a three-year investigation, the regulator concluded that the pharmacy sector, supposedly a free market, was nothing of the sort. For four months from December 2007 to March 2008 (and perhaps for years before that) Chile's three big pharmacy chains, which between them control 90% of the market, fixed the prices of 222 medicines, the regulator found. They included treatments for serious chronic diseases like epilepsy and diabetes. On average, the price of the drugs rose by 48% during the four-month period, while the cost of manufacture rose by just 1%. Some of the medicines tripled in price.

The regulator fined two of the companies, Cruz Verde and Salcobrand, \$19m each, the heaviest penalties it's ever imposed for price-fixing. The firms deny any wrongdoing and will appeal. The third company, Farmacias Ahumada, accepted a \$1m fine in 2009 after turning whistleblower and providing evidence to damn its rivals. The companies are now likely to face a barrage of compensation suits from angry customers claiming, quite rightly, that they were overcharged for everything from anti-depressants to contraceptives.

Apologists may try to paint this as a one-off case, but that seems unlikely. In December state prosecutors asked the regulator to investigate alleged collusion between the country's three biggest poultry producers, Agrosuper, Ariztía and Don Pollo, which breed 93% of the chickens eaten in Chile. The prosecutors say the companies agreed on quotas, deciding how much meat they would each supply to market. The companies deny the charges. And Three weeks after the alleged "chicken scandal" came to light, the regulator fined four bus

companies for price-fixing. Others were accused of colluding to prevent new operators entering the market.

The government welcomed the antitrust ruling, saying it was proof the regulator was doing its job. “The social market economy that we're building only makes sense...if the sacred rights of the consumer are respected,” said Sebastián Piñera, the president. But the proliferation of such cases will probably erode confidence in the private sector. Most Chileans take medicine, eat chicken and travel by bus. They can surely be forgiven for wondering if they're being ripped off every time they do so.