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From: John Pecman

To: Canadians Concerned about Competition

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Re: **LET THE MARKET MANAGE FOOD DELIVERY PRICING**

As restrictions continue on in-person dining, COVID-19 has made restaurants increasingly dependent on food delivery platforms. Last month, the City of Toronto asked Ontario to temporarily cap the service fees restaurants are charged, which can be as high as 30 percent of the bill.

There is superficial appeal to price caps, but taking economic guidance from Hippocrates – first, do no harm – they amount to quackery. Regulatory interventions need to be carefully dosed according to a precise diagnosis of market failure and the extent of the disease.

Instead of introducing new price cap regulations, Premier Doug Ford urged food delivery apps to slash commissions as a way to help out pandemic-stricken restaurants. This moral suasion appears to have worked: days later, Uber Eats Canada dropped its commission to 7.5 percent from 15 percent for restaurants whose websites use Uber's online ordering system.

Most importantly, market forces appear to be responding. The Ontario Restaurant Hotel & Motel Association has announced plans to launch a food delivery service in Toronto with commission fees projected to be at 9.5 percent. It would appear that with the benefit of a nudge by our policymakers, competitors are stepping up: If online delivery apps are raking in large profits, upstarts have incentive to enter the market. The competitive response indicates that market forces can limit pricing power without needlessly burdensome and costly price-cap regulations on the food delivery sector.

Why is relying on market forces and competition a better public policy solution?

Price cap regulations have traditionally been imposed on natural monopolies or dominant firms to prevent them from making excessive profits at the expense of consumers. Recent examples include price caps on public utilities such as electricity distribution or interest rate limits on payday loans. Price caps result in lower prices for purchasers at the expense of profits to the producers.

But if price caps result in lower prices, why are they not imposed more frequently? The main reason is that they will lead to lower supply and shortages. If a company gets a lower price, there may be less incentive to supply the good or service, and the number of suppliers in the market declines. Other collateral damage from price caps is job losses, as lower profits may mean companies have to fire workers as they cut costs. As well, price caps can entrench the monopoly power of dominant firms and make it difficult for new firms to challenge the status quo.

Perhaps most importantly, government regulation of market prices can short-circuit the dynamic balance of supply and demand. Market participants typically have better moment-to-moment information about the market than governments. Imposing a price cap means that the market cannot adjust to times of scarcity and different degrees of willingness to pay between different customers. A regulated price can unbalance demand and supply, which in turn harms efficiency and productivity.

In addition, government will also need to spend considerable taxpayer funds to establish and administer new price regulations. Further, temporary government schemes often become permanent and would require significant time, effort and expense to remove. Finally, maximum-price regulations can lead to the emergence of black markets as people try to overcome product shortages by paying much more than the market price.

One only need look south of the border, where various cities – including San Francisco and New York – have introduced caps through emergency executive orders. Delivery app companies responded by cutting off deliveries to certain neighbourhoods and imposing surcharges on consumers.

Just because food delivery has become more important than ever to both consumers and restaurants does not call for its regulation.

The question here is whether certain competitors have "market power." In fact, the food delivery space has all the hallmarks of a contestable market where barriers to entry are low, prices are transparent and easily discoverable, and many substitutes exist. For example, the multiple app providers for food delivery not only compete against one another, they also compete against restaurant apps and websites as well as pre-COVID pizza and Chinese food delivery. They also face competition from other transportation services options that do not specialize in restaurant food: think Amazon, taxi services or even your own pick-up.

The pandemic has underscored the critical role of government, and there are good reasons for governments to intervene where markets fail. However, delivery price caps would be no cure for restaurateurs' concerns and would risk worse side effects than any passing fever of high prices. As usual, the best medicine is competition.

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