

The Economics of Information Exchanges



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- **Introduction**
 - Economic theory
 - Application to antitrust policy and practice

Introduction

- **“Information exchange” can involve many different kinds of information**
 - E.g. prices, costs, output levels, capacities, customers
 - Individualised vs. aggregated, historic vs. future, recent vs. old, private exchange among suppliers vs. public announcements, etc.
- **High market transparency is consistent with highly competitive markets, but private communication between competitors is often viewed with suspicion**
 - Typically a presumption against certain types of exchange – esp. individualised, recent or future information, exchanged between competitors but not customers
- **What guidance does economic theory give? What does this mean for the antitrust evaluation of information exchanges in practice?**

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Economic theory – non-coordinated effects

- **Static models – assume away possibility of coordination/collusion to focus on non-coordinated effects**
 - **Potential efficiency benefits from reduced uncertainty**
 - E.g. capacity/output planning, matching supply with uncertain demand
 - **But better information could also allow suppliers to extract more surplus from customers**
 - **Theory also examines whether competitors have incentive to exchange information in absence of collusion**
 - **Results depend sensitively on model/assumptions**
 - Form of competition (price or volume); form of uncertainty (private or common), etc.
 - No universal mechanism for competitive harm, and potentially significant scope for efficiencies
- ➔ Information exchanges do not generally raise serious issues in the absence of potential coordination**

Economic theory – coordination

- **Coordination – whether tacit or explicit – requires each of the following**
 - Reaching common understanding (“agreement”)
 - Monitoring
 - Enforcement (“punishment”)
- **Certain types of information exchange can facilitate these necessary conditions; in particular:**
 - Reaching agreement – communication on strategic intentions
 - Monitoring – credible/timely communication of relevant past actions (to permit effective punishment)
- **Potentially also other, more indirect, effects**
 - E.g. decreasing differentiation through transparency (ambiguous effect)
- **Scope for efficiency benefits remains**

A typical ranking of types of exchange by risk of harm

HIGH

Private communication of future plans (but public commitment to customers may yield benefits)

Exchange of individual data on prices and quantities

MEDIUM

Exchange of individual data on demand and costs

LOW

Exchange of aggregate data

Source: Vives (2007)

- Based on general predictions from theory on relative likelihood of anti-competitive potential vs. efficiency motives
- Application to specific cases requires context:
 - (a) workings of the specific market; and
 - (b) the underlying concerns (reaching/monitoring coordination)

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Antitrust application – practical assessment

- **Economics gives some clear predictions on sources of competitive harm from information exchange:**
 - Information facilitating reaching of coordination
 - Information on individual future intentions
 - Relating to relevant strategic variables
 - Permitting adjustment of relevant behaviour by others
 - “Cheap talk” (no commitment value) can be an effective tool
 - Information facilitating monitoring
 - Information on past behaviour (re. relevant strategic variables)
 - Timely, individualised (permitting swift punishment)
 - Must be verifiable / credible, and go beyond what is available elsewhere
 - Could also take less direct forms
 - E.g. information on total market demand, if this aids coordination or monitoring

Practical assessment (2): does the information help to reach or monitor terms of coordination?

- **Need to understand how competition works in the market, and how exchanged information relates to competitive variables**
 - Example: assessing an exchange of data on recent/future individual “prices”
 - List or transaction prices?
 - Spot pricing or longer-term contracting? Basis/timing of any contract pricing?
 - Price-setting vs. quantity-setting competition?
 - Information in public domain through other channels?
- **Also need to consider alternative motivations, efficiency benefits, etc.**
 - Can participants offer a plausible explanation?
 - May be market-specific

Practical assessment (3) – broader market context

- **Is the market conducive to coordination (market structure, product characteristics, form of competition...)?**
 - Is there evidence of past coordination?
- **Is there evidence that the information has actually been used for coordination?**
 - E.g. competitors' responses to information received; other observable links between market behaviour and information exchange?
- **If no evidence for effect, is anticompetitive *object* compatible with market facts?**
- **Interpretation of evidence on existence of information exchange:**
 - Information exchange as *causal factor* reducing competition (enabling coordination)?
 - Or as a piece of *evidence* for wider anti-competitive actions (e.g. cartel)?

Practical assessment (4): conclusions

- **Competitive impact of an information exchange depends crucially on facts of the case**
- **Economics supports the view that more individualised, more timely information on key competitive variables is *generally* more problematic than other types of exchange**
- **But need to look closely at relationship of information exchange to actual competitive variables**
 - Does the *specific* information exchanged assist reaching or monitoring of coordination?
 - Is coordination (tacit or explicit) plausible in the market in question? Is there any evidence of it happening?
 - Is there a coherent *theory of harm*?
- **Also take account of alternative motivations, efficiencies, etc.**

Conclusions for policy

- **“Uncertainty” per se is not needed for effective competition, but certain types of communication/transparency are essential to coordination**
 - Focus of policy should be on tackling coordination, while preserving any important efficiencies
- **The usual trade-offs between per se rules and case-by-case assessment (risks of false positives vs. false negatives, etc.) arise**
 - Generally expressed per se rules are likely to lead to false positives
 - “Rule of reason” or rebuttable presumptions are more likely to distinguish problematic exchanges from harmless or beneficial ones
 - Either way, underlying objective of policy should be to catch exchanges that facilitate reaching/monitoring of coordination
 - Cf. new Commission guidelines on application of Art. 81 to maritime transport

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