

Non-horizontal Collusion

Remarks prepared for the CRA conference

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Cartel Law Enforcement

- Cartel literature is flat
- Vertical collusive effects *ad hoc* – RPM, exclusive dealing
- Cartels forced into sophistication – smoking guns, leniency
- Collusion moves from explicit to tacit
- Minimize communication to coordinate – rather than explain or build trust
- Agencies are adapting as well – OFT's fining of RBS





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Coordination in Another Dimension

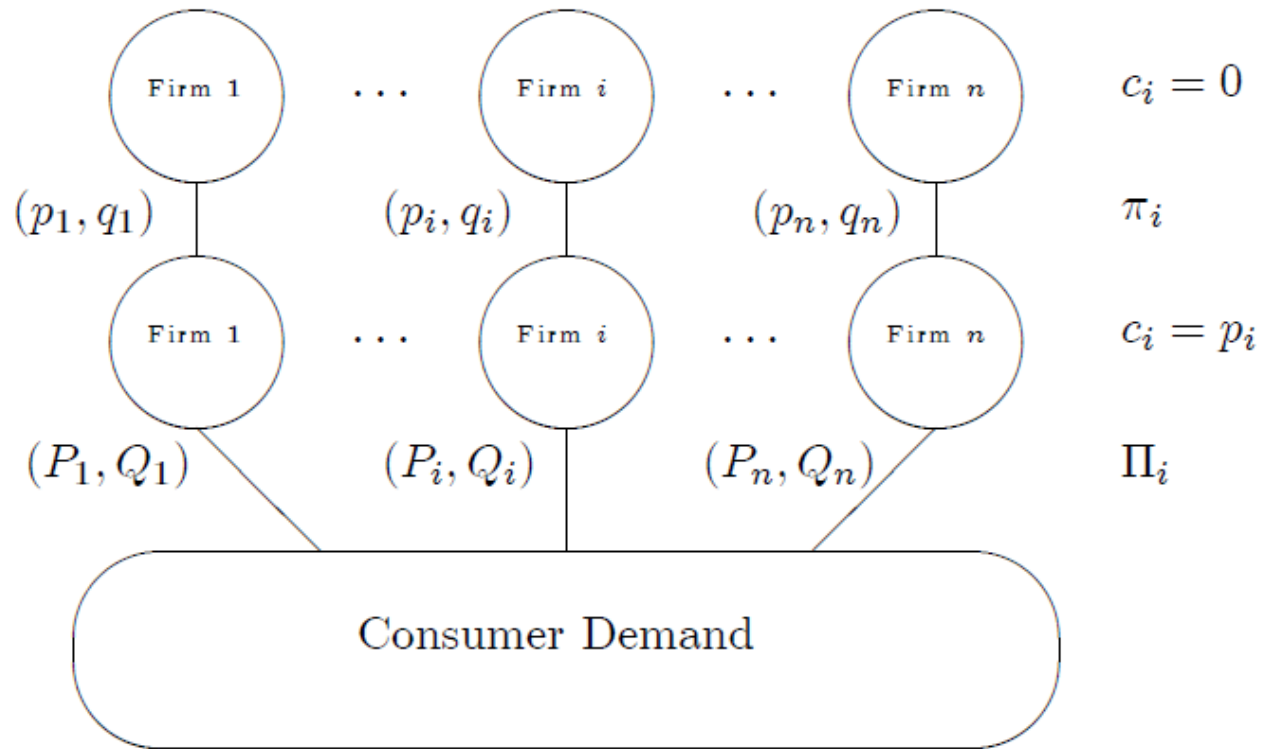
- Non-horizontal collusion:
 - Diagonal – consultant, remote market
 - Vertical – upstream-downstream, hub and spoke
- Mechanisms involving:
 - Prices, non-linear, discounts – bitumen
 - Volume, sales, distribution – bananas, insurance
 - Quality, effort, investments – banking

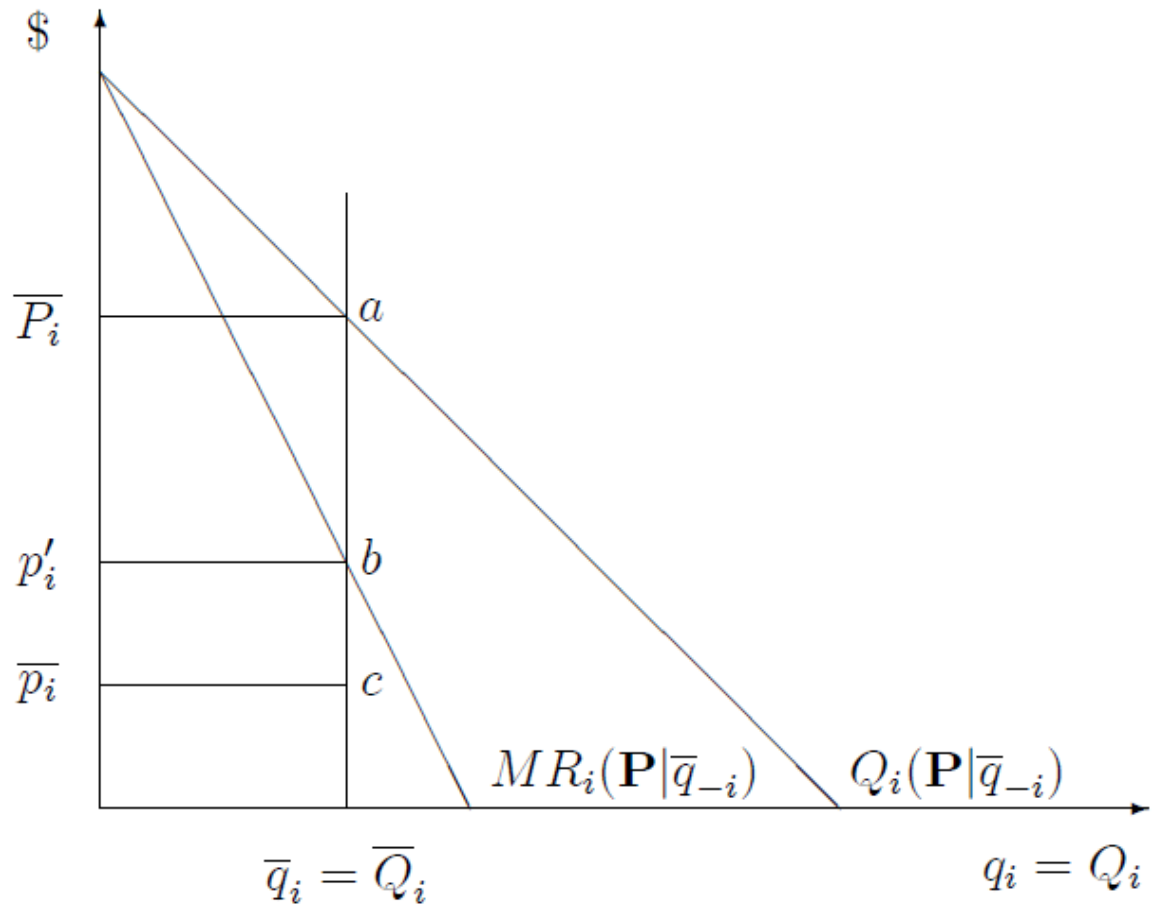


Theory of Non-horizontal Collusion

- Recognition of surplus in the chain
- Pass-ons determine ‘length’ of the cartel
- Recognition of everyone’s incentives and role
- Non-horizontal monitoring – RPM, service
- Non-horizontal punishment – refusal to deal
- Non-horizontal entry barriers – capacity constraints, exclusivity
- Common understanding of rent sharing mechanism:
 - Benefits based on relative contribution
 - Instruments – ‘putting on allocation’







Concluding Remarks

- Who is the hub?
- How can a hub help?
- Why would it want to help? – How is it compensated?

- Organization of the chain of production is endogenous
- Part of merger control? – non-horizontal coordinated effects

- Type I errors – distinguishing harmful from competitive business practices
- Settling/abandoning hinders learning

