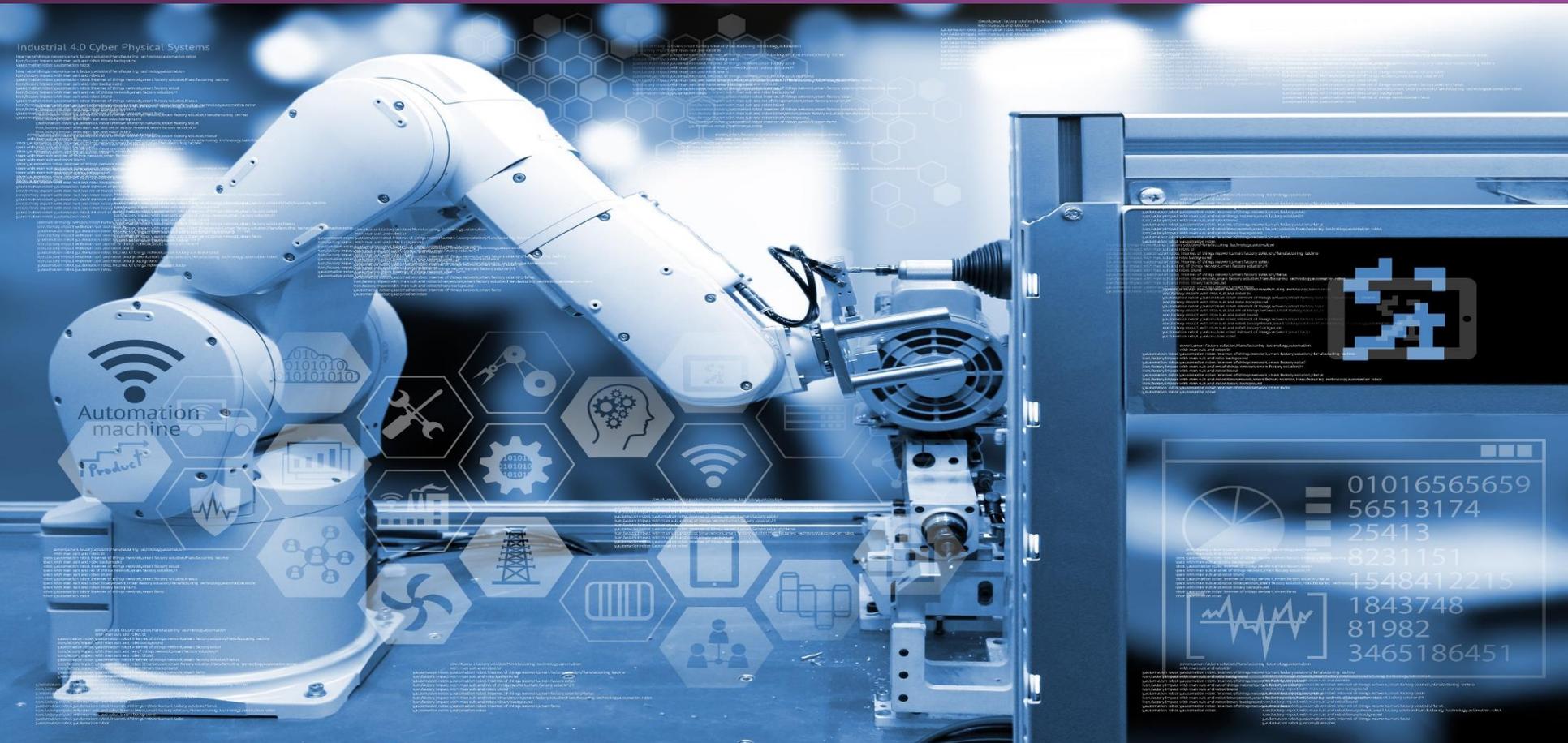




An introduction to digital competition

James Mancini (James.MANCINI@oecd.org)



The opinions expressed and arguments employed herein are those of the authors and do not necessarily reflect the official views of the OECD or OECD member countries.



Outline

1. Why is competition important?
2. What makes digital markets unique?
3. Challenges for competition policy in digital markets
4. OECD competition resources



1. Why is competition important?



Benefits of competition policy for the national economy

- Aggregate economic benefits:
 - Short-term for consumers, and other buyers including public sector
 - Longer term: innovation and growth
- Distributional benefits
 - Inequality
 - Poverty reduction
 - Employment
- Social benefits
 - Fighting corruption



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Consumer benefits

Harm from Cartels

- On average 1990 – 2013, **discovered** international cartels affected US\$750bn commerce per year, overcharge 40% (Connor, 2014)
- Just **one** international cartel on vitamins 1990-1999 resulted in overcharges to importing countries of US\$2700m
- **Dominican Republic** was overcharged US\$3m, on imports of US\$8m.

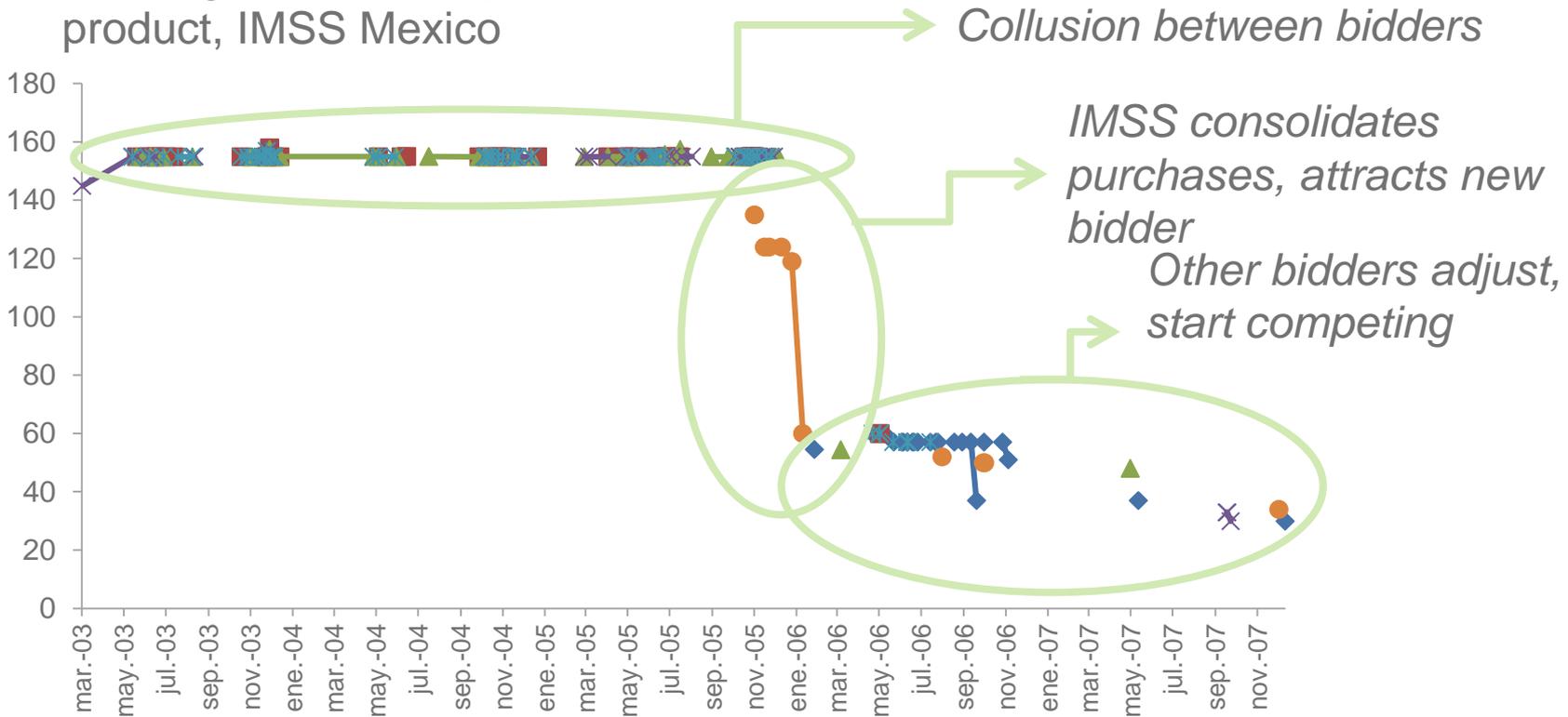
Source: Estimates from Clarke and Evenett 2002



Consumer benefits

Cheaper public procurement

Winning bids for one pharmaceutical product, IMSS Mexico



This single change (following OECD recommendations) saved an estimated EUR 250m. Overall, IMSS estimated savings at EUR 700m/year



Consumer benefits

...from reduced regulatory barriers

Issue	Annual Benefit	Number of provisions affected	Value, €m
“Fresh” milk	€33m (consumer benefit/year)	2	33
Levy on flour	€8m-11m (value of levy/year)	1	8
Sunday trading	€2.5bn (annual expenditure), plus 30,000 new jobs	3	2 500
Sales and discounts	€740m (annual turnover)	9	740
Over the Counter pharmaceuticals	€102m (consumer benefit/year)	23	102
Marinas	€2.3m (annual turnover)	10	2
Cruise business	€65m (annual turnover)	4	65
Advertising	€1.8b (consumer benefit/year)	14	1 800
<i>Everything else</i>	???	263	???

OECD review of 4 sectors in Greece

Total: €5.2bn + ???



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Productivity and growth

Mechanisms





Productivity and growth

Economic studies: UK, South Africa

- “The most competitive firms experienced productivity growth rates 3.8 - 4.6 percentage points higher than the least competitive.”

Nickell, Quarterly Journal of Economics 1996

- More competition could increase productivity growth in South Africa by 2 – 2.5 percentage points per year

Aghion, Review of Economics and Statistics, 2009



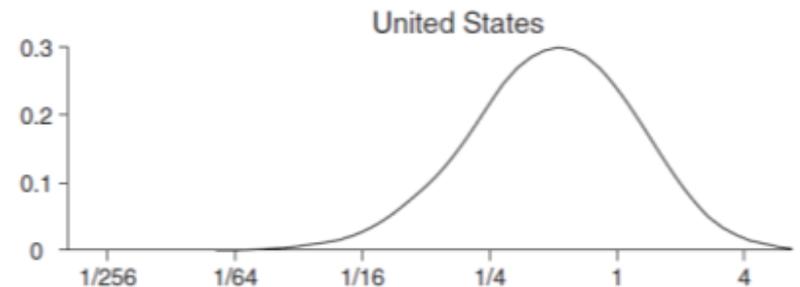
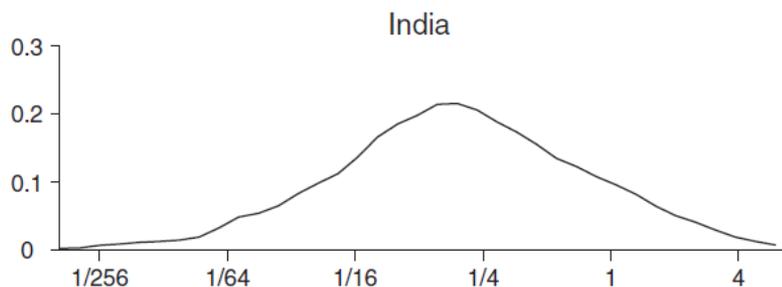
Productivity and growth

Economic studies: Asia

- **Japan:** Over a 50-year period, cartels almost never found in successful exporting industries, even though they were prevalent in the rest of the economy.

Porter, Takeuchi, and Sakakibara (2000)

- **India** can rapidly increase productivity by putting pressure on its long 'tail' of inefficient firms



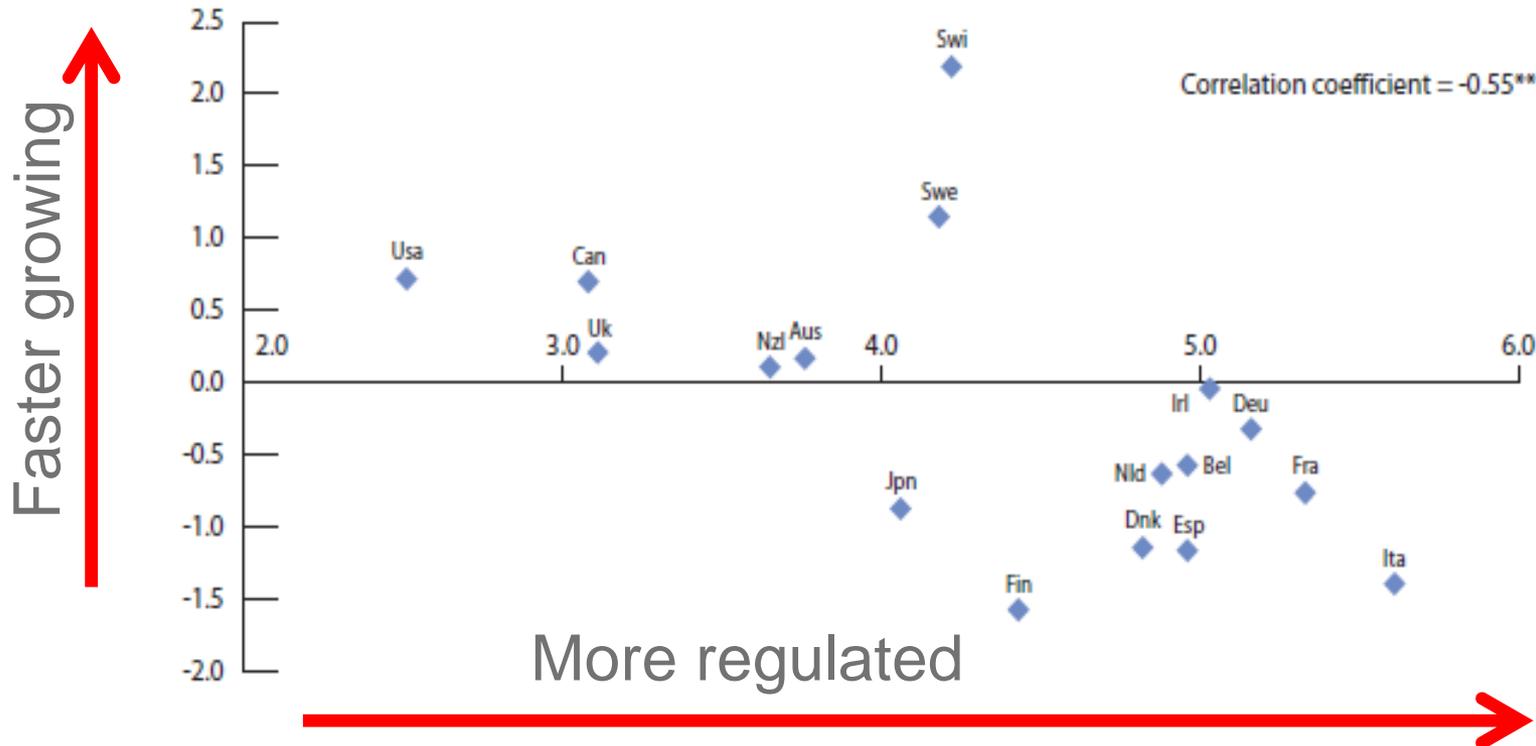
Source: Hsieh and Klenow (2009),



Productivity and growth

Regulatory barriers hold back growth

Increase in multi-factor productivity compared to regulatory stance

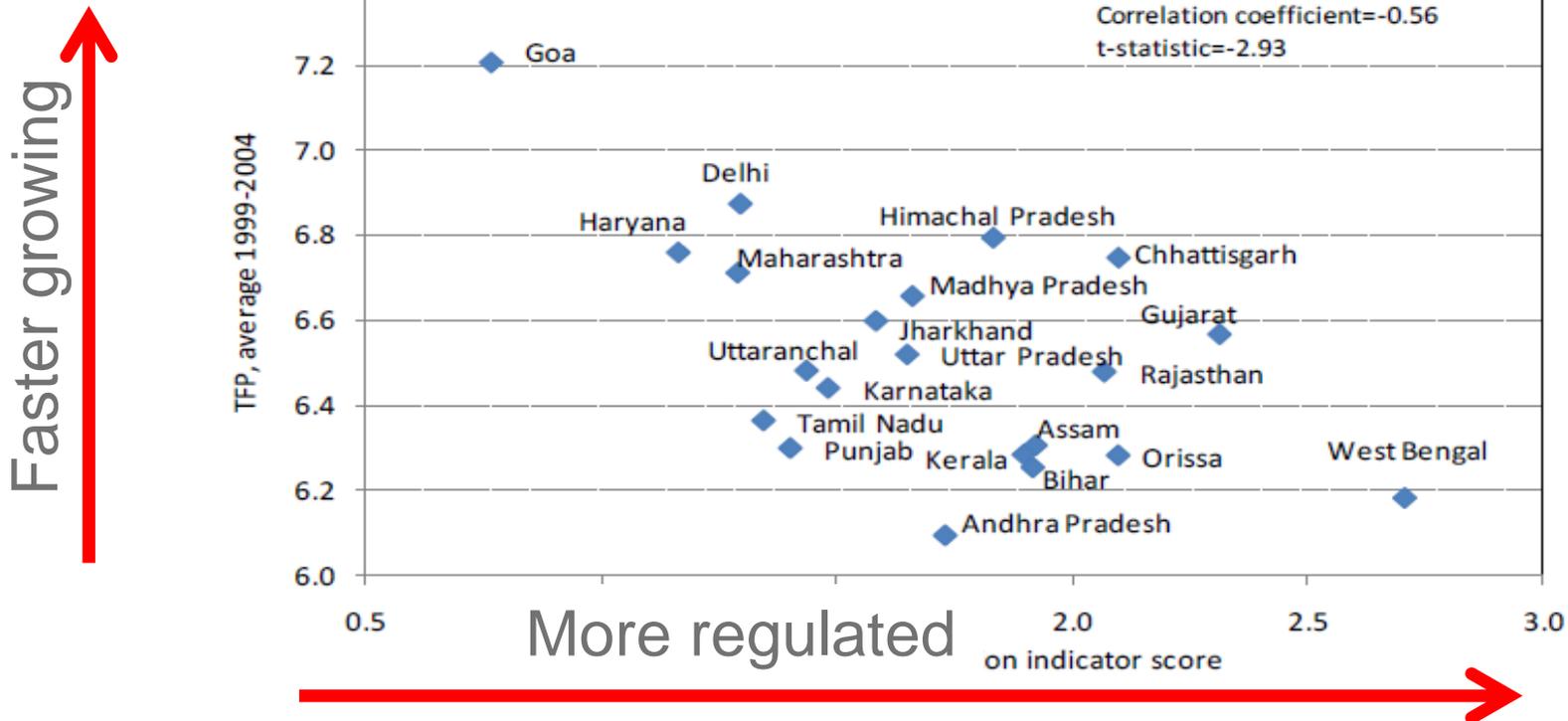


Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.



Productivity and growth ...in developing countries too

Increase in multi-factor productivity compared to regulatory stance



Source: OECD, using Indian National Accounts statistics



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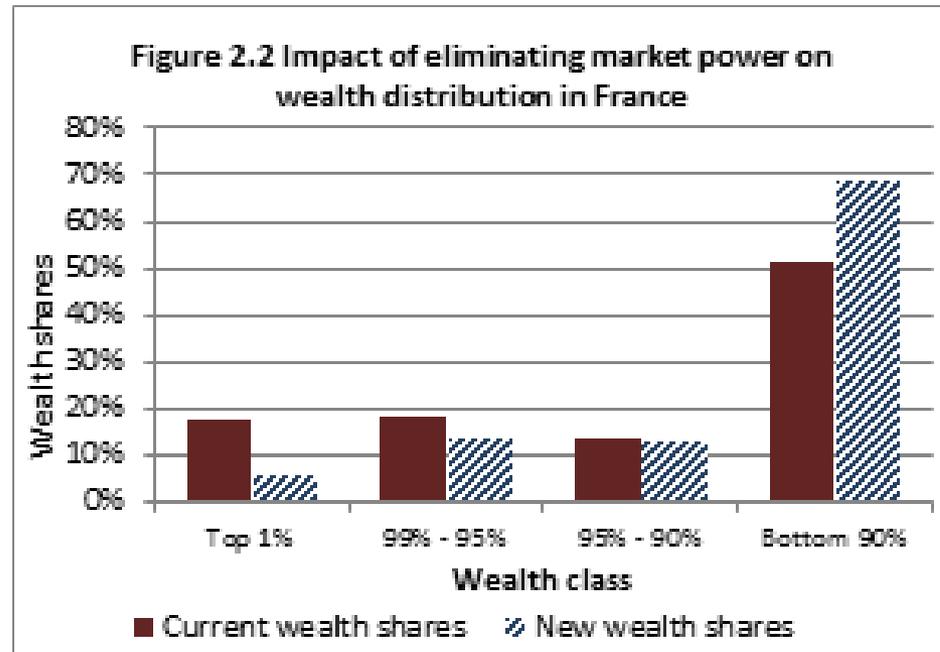


Distributional outcomes

Monopolies create inequality

- Cartels and monopoly:
 - Raise prices for everyone; and
 - Increase income for holders of financial wealth

OECD researchers are analysing country-by-country data to quantify this effect





Distributional outcomes

The poor suffer most from price-fixing





Distributional outcomes

Competitive markets create jobs

- Long term: clearly more competitive economies are more dynamic, creating more jobs
- Liberalisation can create jobs:
 - More competition from European Single Market reduces profits 3%, reduce unemployment 0.5%.
Griffith et al Economic Journal 2007:
 - Regulatory restrictions reduced retail employment in France by 10%
NBER Working Paper No. 8211
- But of course there can also be short-term job losses as inefficient businesses close



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...and it's not just economic outcomes

Monopolies corrupt the political process





OECD “Factsheet” on effects of increasing competition





2. What makes digital markets
unique?



What makes digital markets unique?

Competition “for the market”

Multi-sided markets

Importance of innovation and non-price competition

Blurring of market boundaries

“Free” services

Rapid change in markets

Algorithmic pricing

Acquisitions of potential “disruptors”

Data as a driver of competition



Some broad economic trends that raise concern

-  Increasing mark-ups
-  Declining start-up creation and business dynamism
-  Acceleration of M&A activity targeting digital firms
-  Growing concentration of revenues
-  Falling labour share of income
-  Increasing survival rate of low productivity firms



What are multi-sided markets?

Markets in which a firm acts as a platform and provides different services to different groups of consumers whose demand depends on one another.

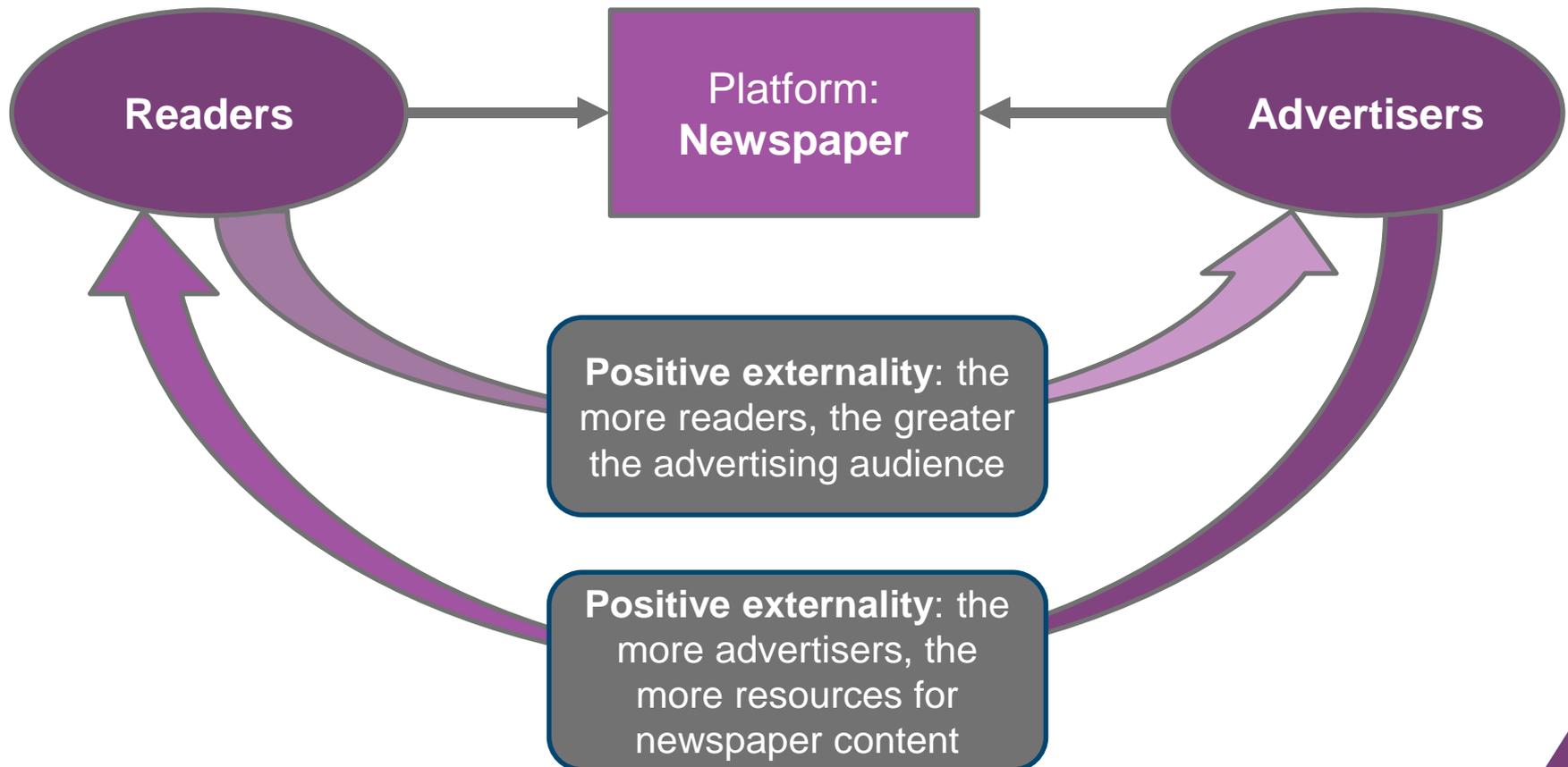
(Adaptation of Evans, 2003)

- **Essential concept:** participation of one side in a platform generates externalities for another side, which may not be explicitly taken into account by the consumer
- Particularly relevant today, with the rapid growth of digital platforms



Some examples of multi-sided markets

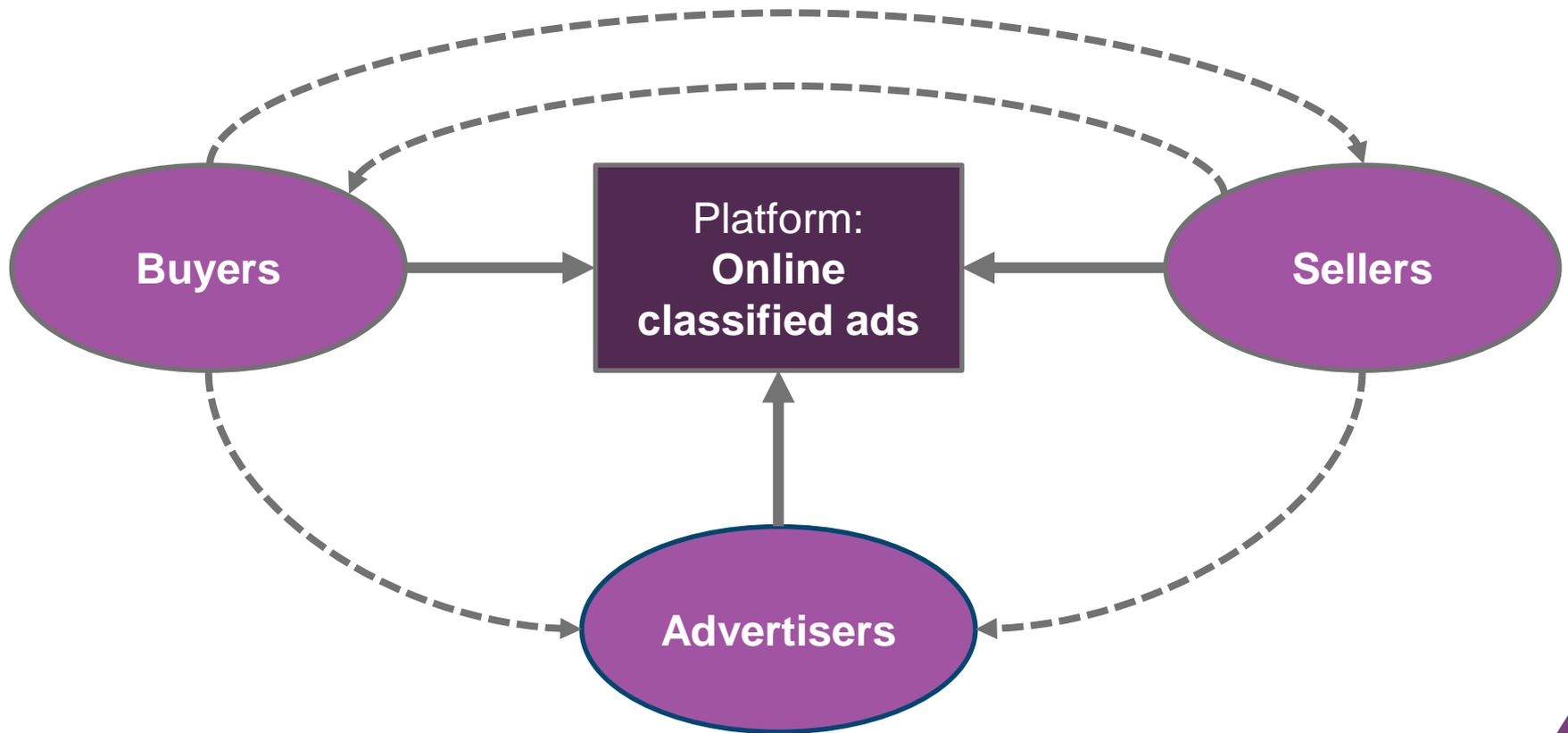
A non-transaction (attention) platform





Some examples of multi-sided markets

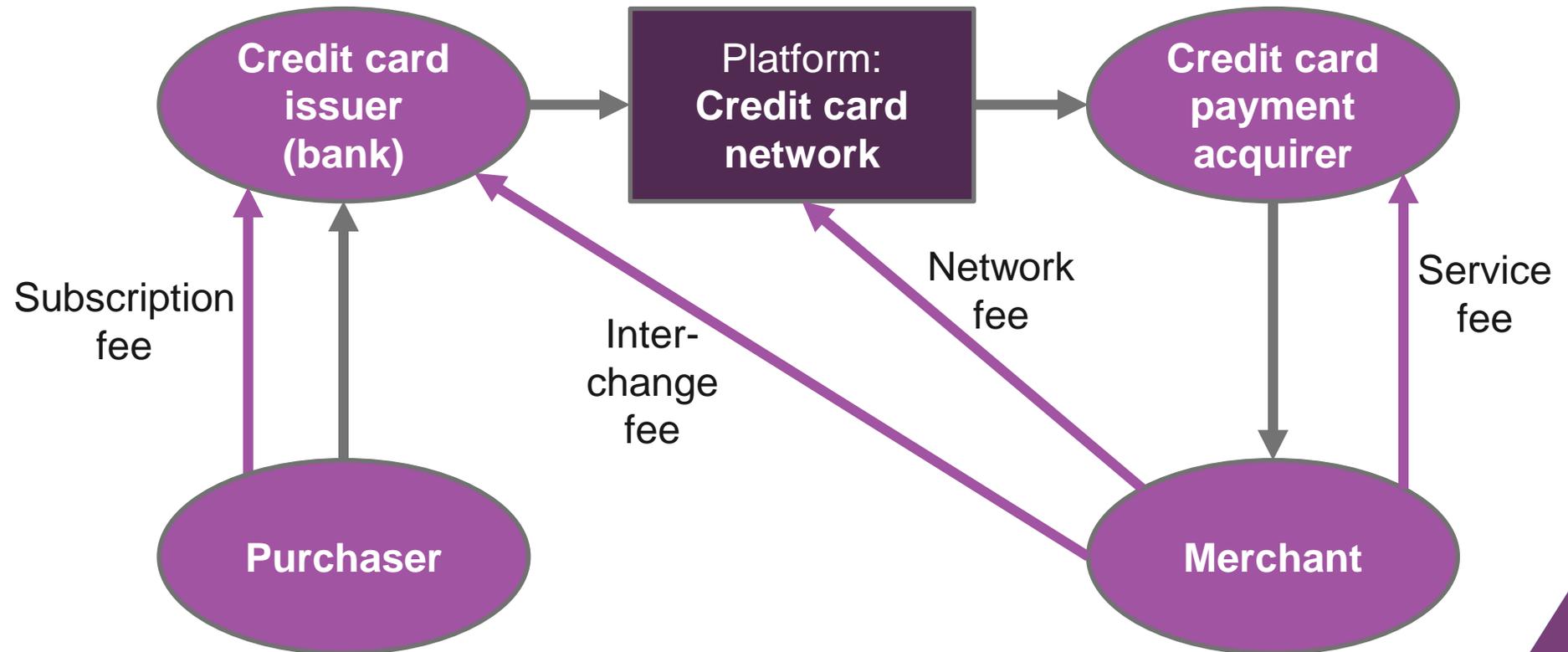
A *transaction* platform





Some examples of multi-sided markets

A more complicated *transaction* platform





What to consider when examining a multi-sided market

- **An important preliminary question:** how important is the cross-platform externality?
- What type of platform/externality is involved?
 - Externality per use, or externality per member (will affect pricing, depending on transaction visibility)
 - Is the externality positive on both sides (matching) or just on one side (subsidy model)?
- Consider the potential existence of feedback loops

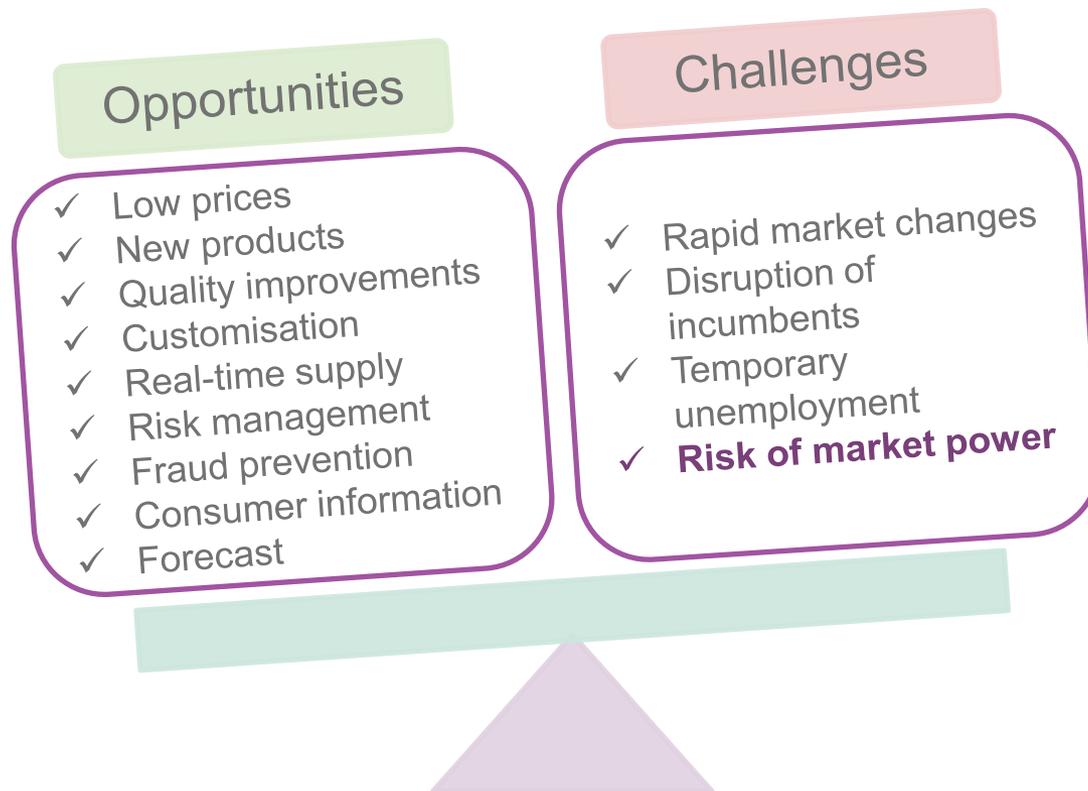


3. Challenges for competition policy in digital markets



Digitalisation has implications for competition

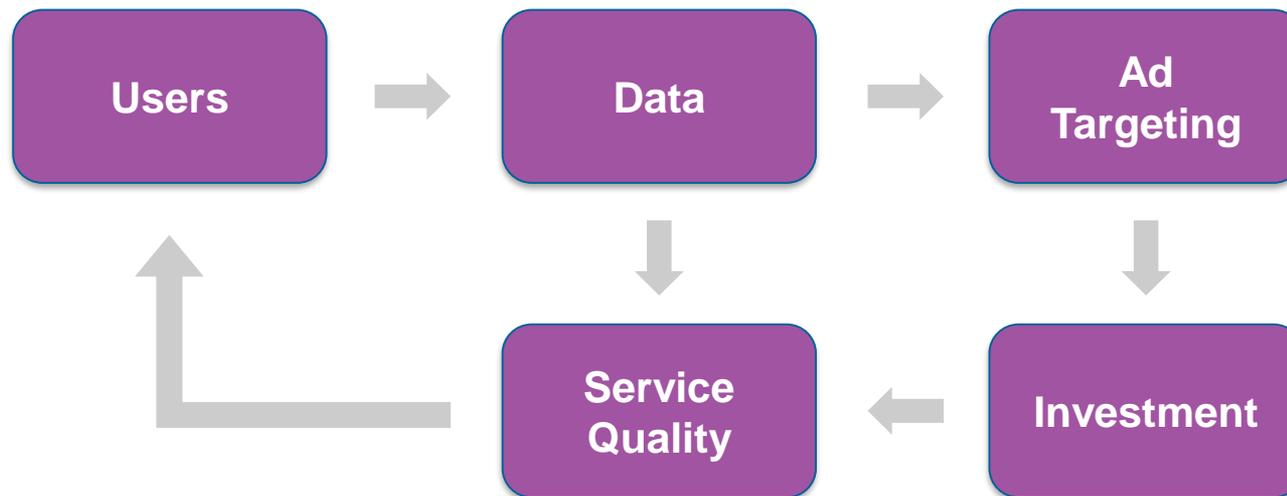
- Digitalisation leads to market integration, promotes international trade and enables new data-driven business models that promote competition, create **economic growth opportunities**, but also pose **new challenges**.





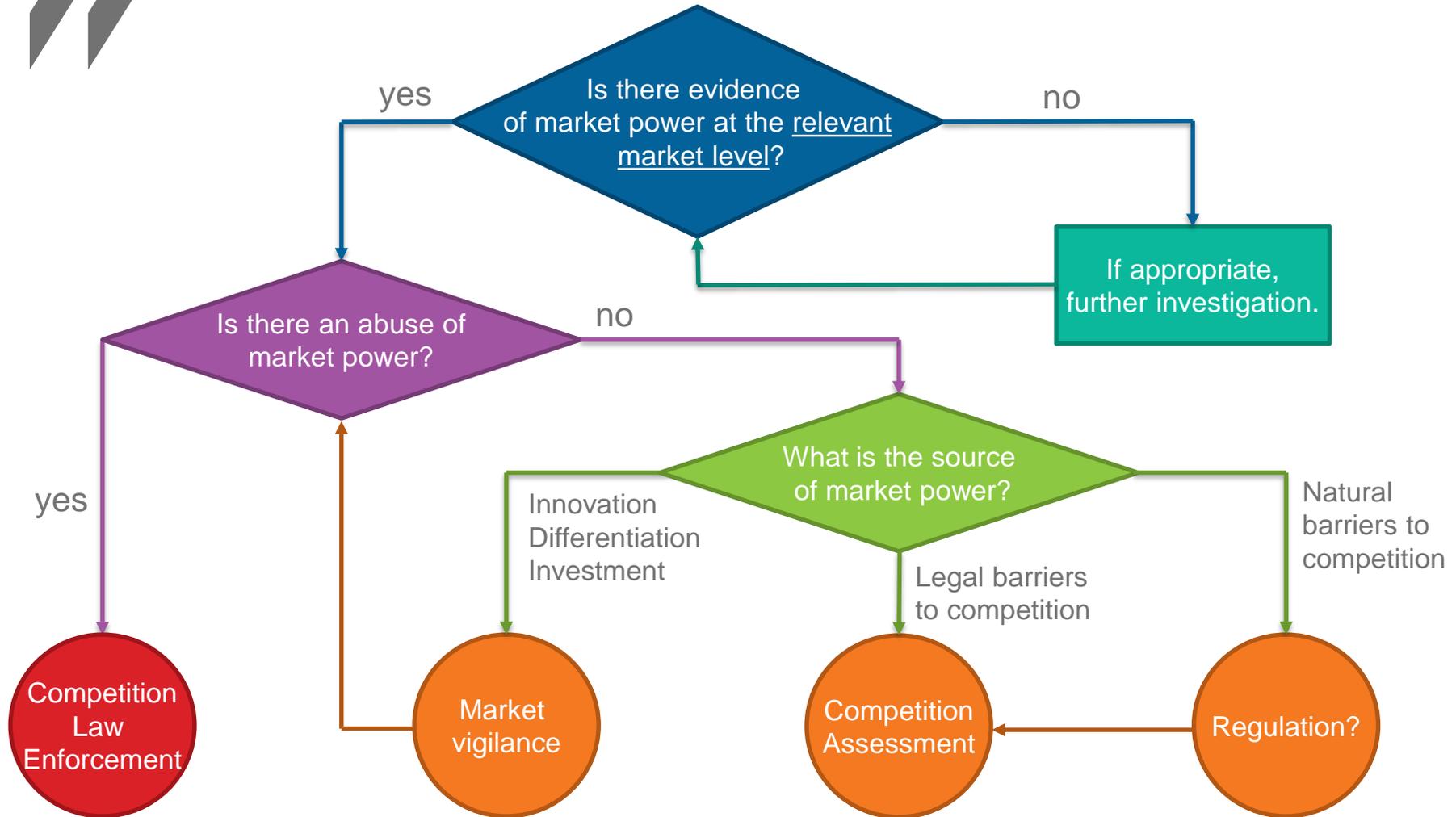
Sources of market power in digital platforms

- Network effects
- Feedback loops
 - E.g. Big data blurs the line separating demand and supply, as online users supply data that is consumed and monetised by companies.





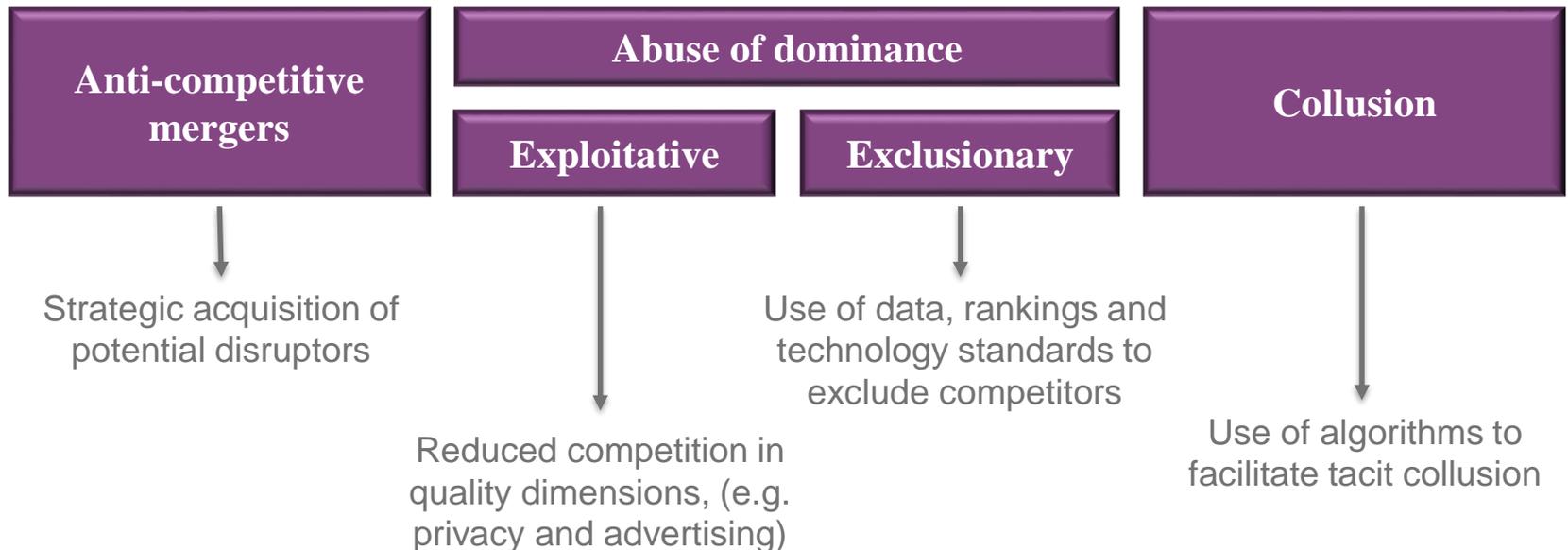
When does market power pose policy concerns?





How can firms abuse market power in digital markets?

- From a competition law enforcement perspective, market power is not problematic if achieved through pro-competitive means (e.g. innovation).
- However, there is a risk that firms engage in anti-competitive behaviour to **sustain** and **exploit** their market power over time:





Some emerging enforcement challenges

- Disruptive innovations and “killer acquisitions”
- Big data
- Non-price competition
- Innovation
- Zero price markets
- Algorithmic collusion





Opportunities for competition policy in digital markets

Competition law enforcement

- Adapt tools (market definition, market power, non-price and zero price markets, merger notification thresholds, ex-post assessments)
- Vigilance in preventing abuses of dominance or algorithmic collusion
- Deeper international and interdisciplinary cooperation

Reforming existing legislation

- Identifying unnecessary barriers to the ability of new firms to enter and compete
- Considering whether current IP frameworks strike the right balance

Identifying new procompetitive policy measures

- Considering the promotion of data portability and other measures to reduce digital consumer switching costs; clarification of consumers' rights regarding their own data
- Encouraging competition authorities to conduct market studies or market investigations to identify competition problems in digital sectors and drive reform
- Assess the need for stronger consumer protection and data protection minimum standards



4. OECD competition resources



The OECD horizontal project Going Digital

- In 2017 and 2018 the OECD will examine how the digital transformation affects policymaking across a large spectrum of policy areas.
- Led and co-ordinated by the OECD's Committee on Digital Economy Policy (CDEP), the project will draw on and connect the expertise of 13 other OECD committees, including:
 - **Competition Committee**
 - Committee on Consumer Policy
 - Committee on Industry, Innovation and Entrepreneurship
 - Committee on Scientific and Technological Policy
 - Employment, Labour and Social Affairs Committee
 - Trade Committee
 - ...





Introduction to OECD Competition Committee

“To protect and promote competition as an organizing principle of modern economies, based on the knowledge that vigorous market competition boosts growth and employment and makes economies more flexible and innovative.”

OECD Competition Committee mandate





Work on the digital economy within the OECD Competition Committee

The Digital Economy is a long-term strategy theme of the Competition Committee. Work on the following five streams is now underway:

1. Relationship between the digital economy, competition law and innovation
2. Challenges posed to prevailing antitrust tools and approaches
3. Practical challenges to competition enforcement
4. Detailed industries and sectors
5. Review of regulations





Recent work of the OECD Competition Committee

Recent work (2015 – 2017)

- ✓ Personalised Pricing in the Digital Era
- ✓ Quality Considerations in the Zero Price Economy
- ✓ Review of the OECD Competition Assessment Toolkit in light of Digitalisation
- ✓ Implications of E-Commerce for Competition Policy (2018)
- ✓ Blockchain and Competition Policy (2018)
- ✓ Algorithms and Collusion (2017)
- ✓ Rethinking the Use of Antitrust Tools in Multi-Sided Markets (2017)
- ✓ Big Data: Bringing Competition Policy to the Digital Era (2016)
- ✓ Work stream on disruptive innovation in the digital economy (2015 - 2017)
 - Disruptive Innovations (2015), The impact of Disruptive Innovation on Competition Law Enforcement (2015), Competition and Disruptive Innovation in Financial Markets (2015), Disruptive Innovation in Legal Services (2016), Radical Innovation in the Electricity Sector (2017)



Accessing OECD competition resources

Access the OECD
Competition Division
website

Select “Best-practice
roundtables”

Choose the topic

<http://www.oecd.org/daf/competition/>

Important material available in each roundtable’s webpage:

- **Executive summary**
- **Background note**
- Papers by expert speakers
- Country written contributions
- Summary of discussion
- Presentations
- Short videos





Thank you

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