

# Seminar Competition Policy

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## What is competition policy (CP)?

"Set of policies and laws which ensure that competition in the marketplace is not restricted in such a way as to reduce economic welfare." (Motta 2004)

- law but based on economic arguments
  - "more economic approach" (less per se offenses and more case by case analysis)
- CP is one of the few areas that is almost completely harmonized in the European Union and in which the European Commission (EC) has executive power
- appeals are possible at the Court of First Instance (CFI) and later at European Court of Justice (ECJ)
- three main parts
  - merger regulation
  - cartels
  - abuse of a dominant position

# Merger regulation

- Will the merger significantly impede effective competition?
- effects on prices (taking possible efficiencies into account)
- effects on market structure, e.g. the likelihood of collusion
- EC may impose structural or behavioral remedies (or block the merger altogether)

## Cartels (Art. 101 TFEU, former Art. 81)

- some problematic practices
  - price fixing
  - splitting up the market (e.g. geographically)
  - limit or control production, markets, technical development, or investment
- most problematic are horizontal agreements but certain vertical agreements fall under 101 as well (e.g. resale price maintenance, exclusive dealing)

## Abuse of a dominance (Art. 102 TFEU, former Art. 82)

- firms with a dominant market position are not allowed to "abuse" this position
- *dominant position*: "a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market" (ECJ in *United Brands v Commission*)
- *abuse*: practices which "through recourse different from those governing normal competition. . . have the effect of hindering the maintenance or development of the level of competition still existing on the market" (ECJ in *Michelin v Commission*)
- economists have argued that a practice should be prohibited if and only if it reduces consumer welfare ("effect based approach")
- examples:
  - refusal to supply
  - price discrimination
  - predatory pricing
  - tying and bundling

## Relevance of competition policy

- fines and potential profits (as well as consumer harm) are significant
- "more economic approach" moved CP from law towards economics
- jobs in firms (e.g. telco, digital economy, consumer goods), competition authorities and other institutions (e.g. EC, BKartA, Monopolkommission, BNetzA) as well as specialized consultancies (e.g. Frontier Economics, NERA, CRAI) for economists trained in CP

## Prerequisites for this seminar

- successful participation requires a sound knowledge of game theory and industrial organization
- for example, you should definitely know
  - best responses
  - Nash equilibrium
  - critical discount factor (in infinitely repeated games)
  - Bertrand competition
  - Cournot competition
  - Hotelling competition
  - ...

## How this seminar works

- 2 students are assigned one case
  - one student represents competition authority
  - one student represents company
  - each student presents case from his assigned angle (20-25 minutes)
  - some minutes for questions and discussion
- write a paper on the case (not necessarily reflecting your assigned role) in which you evaluate the case and the EC's decision
- your task:
  - trace out the economics behind the case (is the practice/merger good or bad for consumers or welfare?)
  - find/create suitable industrial organization models to make your point
  - *focus not on the legal but the economic side of the case*

## Suggested work flow

- read the starting article or book chapter for your case (see topic list)
- find the actual decision of the competition authority and read through it
- search for relevant literature
  - case discussions by economists
  - IO models relevant to the case
    - check Motta (2004) and Belleflamme and Peitz (2015)
    - search for relevant papers in scientific journals (a non-exhaustive list of potentially relevant journals is given in the topics document)
- make an outline for your presentation (and paper)
- discuss outline with supervisor
- make your presentation and draft your paper
- incorporate feedback from presentation into paper

### Notes:

- The *economics library* offers courses in literature search in case you feel uncomfortable with this.
- You may find Jan Boone's *lecture material* on Competition Policy helpful.

# Formalities

- paper:
  - maximum 10 pages excluding reference list and cover page, font size  $\geq 10$ , at least 2.5cm margin at all sides
  - we recommend you to write your paper in  $\text{\LaTeX}$ , see the website of the chair for a guide
  - language: English or German
- presentation:
  - 20-25 minutes (strict)
  - room for questions and comments afterwards
  - criteria for grading:
    - clarity
    - understanding of source
    - quality of own thoughts
    - ability to handle questions
  - language: English
- grading:
  - $(\textit{paper} + \textit{presentation})/2$  (rounding down to the next grade)

## Important dates

- **Registration:** Via KLIPS.
- **Time of seminar:** Thursday, June 13 and Friday, June 14, 2019. The seminar will take place in 103/EG/0.219. Exact time will be announced at a later date via Email.
- **Introductory meeting:** A first (compulsory) introductory meeting will take place in room 101/06/610a on April 04, 2019 at 14:00.
- **Assignment of topics:** Topics will be assigned to seminar participants by Friday, April 12, 2019 via Email. Please indicate (at least) your 5 preferred topics (in order of preference) by April 9, 2019 via Email to "mgramb AT uni-koeln.de".
- **Paper submission deadline:** The seminar papers will have to be turned in by July 14, 2019 at noon.

submission either via mail box (mail room, SSC first floor) or secretariat of the chair (SSC 4.303)

# Bibliography

Belleflamme, P. and M. Peitz (2015). *Industrial organization: markets and strategies*. Cambridge University Press.

Motta, M. (2004). *Competition policy: theory and practice*. Cambridge University Press.