

Transparency and Competition Policy

**Peter Møllgaard, CBS
(w. Per B. Overgaard, U. of Aarhus)**

**The Pros and Cons of Information
Sharing**

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Overview

1. FAQs – FRAs
2. Transparency in theory
3. Cases
4. Lessons for competition policy



1. FAQs

- What is transparency?
- When is transparency bad?
- When is transparency good?
- Are the cons of transparency not just theoretical babble?
- How many characteristics transparency possibly be bad?
- How is all this related to competition policy?



2. Transparency in theory: Fragmented markets

- Perfect competition
- Theory of the second best
- Stiglitz' tourists and natives
 - Natives are better informed about prices than tourists
 - Tourists must engage in costly searching
 - Reduction of search costs may result in more competition – lower prices



2. Transparency in theory: Static oligopoly

- Kühn & Vives (1995)
- Incentives of firms to share info
 - Demand vs. costs
 - Trade-off: planning (pro) vs. competition (con)
 - Depends on nature of
 - competition (prices v. quantities)
 - information (common v. private shocks)



2. Transparency in theory: Dynamic oligopoly

- When firms are few
- they understand:
 - that a high price is in their own interest
 - and that they may be punished in the future for undercutting
- Chamberlin, 1929; Stigler, 1964
- Recent (1970+) game theoretical foundations



2. *Transparency in theory:* *Dynamic oligopoly*

- Payoffs at each stage
 - Collusion $\Rightarrow C$
 - Competition (Nash) $\Rightarrow N$
 - Deviation $\Rightarrow D$
- Nash trigger strategy
 - Collusion: $C + dC + d^2C + \dots$
 - Deviation: $D + dN + d^2N + \dots$
- Collusion in equilibrium:
 - $d \geq (D-C)/(D-N)$



2. Transparency in theory: Dynamic oligopoly

What may hinder collusion in oligopoly?

- *Lack of info – detection of cheating/undercutting*
 - *Time lag*
 - *Probability of detection*
- *Multiple equilibria / Asymmetries – lack of focal point*
 - *Cost asymmetries or heterogeneous goods*
 - *Folk theorem(s)*
 - *Transparency: cheap talk to avoid coordination failure*



2. *Transparency in theory: Consumer side*

- *Increases both temptation to deviate and the threat from punishment*
 - *Arvid: lower search costs facilitates collusion*
 - *Schultz: w. product differentiation, more informed consumers facilitate competition*
 - *Møllgaard & Overgaard: Collusive prices depend on transparency: U shape*



3. Cases

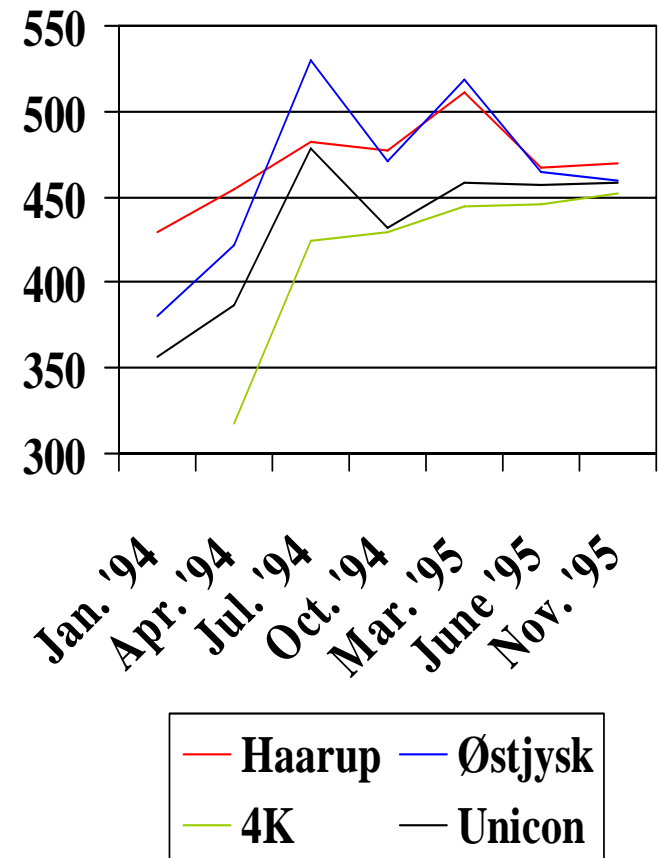
1. Danish ready-mixed concrete
 - The effect of coordination due to info on past prices
2. Swedish gasoline
 - Communication on discount levels and timing of adjustment
3. Airline Tariff Publishing
 - The effect of coordination due to info on future prices (cheap talk).
4. TACA
 - Cartel police is welcome!
5. UK Tractors
 - Information exchange is proof of collusion *per se*



3. Cases

Danish ready mixed concrete

- Ready mixed concrete in Århus
- DCA made public prices and secret discounts
- Input prices stable
- Low capacity utilization





3. Cases

Airline Tariff Publishing

- ATP = JV of 8 major airlines
- Collects and disseminates info
 - To and from airlines
 - To Computer Reservation Systems
- Last and First Ticket day
 - Usefull to communicate intentions
 - Focal point – cheap talk
 - Threat of punishment



3. Cases

TACA: container shipping

- Trans Atlantic Conference Agreement
- Detailed tariff
 - PoD, PoA
 - 26 types of cargo
- TACA Enforcement Authority
 - Internal cartel police => no cheating



3. Cases

UK Tractors

- UK Agricultural Tractor Registration Exchange
 - Detailed info on retail sales and market shares of eight suppliers
 - CR4=77; CR8=87
- Eliminates uncertainty and secrecy => improved coordination
- Aggregate data would suffice to protect consumers



4. Lessons for competition policy: Types of info

- Information about rivals' actions
 - past, present and future
- Info about product characteristics
 - Consumer protection
- Information flows to firms vs to consumers
 - Hard to separate
 - Affect competition anyway



4. *Lessons: Taxonomy*

- Private communication betw. firms problematic
- Communication abt future actions
 - better if involve commitment/sales
- Aggregate data better than firm-specific
 - And older better than recent
- Effects depend on market structure and way in which information is disseminated.



4. *Lessons: Taxonomy*

Information characteristic		
Content	Past	Future
Target group	Firms	Customers
Commitment	Trade	Cheap talk
Verifiable?	Hard	Soft
Aggregation	Specific	Aggregate
Timeliness	New	Old



Summary

- Collusion can happen without agreements or communication if the market is sufficiently transparent.
- Information exchange may facilitate collusion but this depends on the type of information.
- Information society: pros and cons
 - Encrypted chat rooms v. smoke-filled rooms
 - B2B /B2C exchanges: good or bad?
 - Who organizes the exchange?
 - What type of information is available to whom?