The Role of Competition Law in E-commerce and Issues related to Cross-Border Cartels

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One Belt One Road Summit
A Challenge for International Coordination and Cooperation
Oxford, 14 September 2017

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The problem: E-commerce, the Algorithm Economy & Competition Policy

"Competition is for losers" Peter Thiel, a co-founder of PayPal payments system & the first outside investor in Facebook.

"The rise of artificial intelligence and powerful algorithms may instead create more durable cartels that are able to maintain higher prices at consumers’ expense and in defiance of traditional enforcement regimes". Policing Digital Cartels. Financial Times. 8 January 2017

• International cartelization are becoming regular practices for algorithms-driven companies of the digital economy driven by international e-trade (e.g. Topkins-US)

• Promises of the sharing and digital economy (greater innovation, lower informational and transactional costs, greater market contestability) are vanishing away, substituted by a more tantalizing trend of market eviction and market monopolization via data control of algorithms.

• Cross-border collusion of computers?: data-driven algorithms can now quickly monitor competitors’ prices and adjust their own prices accordingly. So what is seemingly beneficial—increased price transparency—ironically can end up harming consumers. Ezrachi & Stucke "Virtual Competition" Harvard University Press (2016)
The problem: Off-line Cross-Border Cartels (CBCs)

Since 2000:

• Over 1,000 new CBCs.

• More than 100,000 companies liable for international price fixing.

• Overcharges exceeding USD 950 billion.

• 1.2% of gross domestic product (GDP) in developing countries affected.
The problem: Factors that may facilitate online Cross-Border Cartels (CBCs)

• Internationalization strategies of e-commerce firms classified into four categories:
  i) single standalone web sites (JD.com - Domestic website)
  ii) dedicated web sites targeted at overseas buyers (Alibaba - B2B & B2C)
  iii) customized web sites in different countries (Amazon)
  iv) establishing a market place for foreign retailers (Tmall of Alibaba)

• Pricing algorithms: have the potential to enable anti-competitive outcomes:
  – company actively seeks to ‘rig the system’ by manipulating the algorithm (Trod, GB Eye and Topkins),
  – Where no such explicitly anti-competitive behaviour exists and instead competing algorithms (deep learning, increased visibility of the market) determine that tacit collusion
Research questions

• Should younger and smaller competition agencies adopt a ‘wait & see approach’ vis-à-vis the emerging enforcement of larger or older competition agencies?
• Are younger or smaller competition agencies ready to adopt a proactive approach in order to face the challenges of these algorithms-driven companies?
• Should emerging nations’ competition authorities be concerned with these firms’ anticompetitive practices or should these concerns remain the developed economies’ sole concerns?
Multinational CBCs


UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Consortium Cartel (1977)
Hypothetical BRICS cartel
Consortium Cartel (1977)


Hypothetical BRICS cartel
transnational CBCs

Consortium Cartel (1977)
Hypothetical BRICS cartel
transnational CBCs

Consortium Cartel (1977)
Hypothetical BRICS cartel
Regional CBCS

Chemical Cartel (2006)

Liquid Oxygen Cartels (1990-1999)

South African Cartels (fertilizer, bread, steel, cement, construction)
Chinese Vitamin C Export Cartel (2002-2013)
RESPONSE OF THE INTERNATIONAL COMMUNITY TO CBCS AND E-COMMERCE

“we will not tolerate anticompetitive conduct, whether it occurs in a smoke-filled room or over the Internet using complex pricing algorithm”” Bill Baer, Assistant Attorney General US DoJ, 6 April 2015

“as competition enforcers, I think we need to make it very clear that companies can’t escape responsibility for collusion by hiding behind a computer program”” Margrethe Vestager, EU Competition Commissioner, 16 March 2017

• New competition laws and institutions in emerging economies
• Almost 140 jurisdictions count with competition laws and institutions
• Many cooperation agreements between competition authorities
• Informal cooperation arrangements
• Unilateral application of competition laws
YOUNGER AND SMALLER COMPETITION REGIMES

• Less developed competition culture
• Limited access to internet
• Too weak to deter multinational CBCs

Therefore:
• Capacity-building
• Focus on transnational and regional CBCs
Main Problems with transnational cross-border cartels

1. “competition” of competition laws & Forum shopping

2. Differences in leniency regimes
   (a) Lack of effective implementation
   (b) Lack of trust by the leniency applicants
   (c) Lack of specific cooperation arrangements

3. Lack of an international definition of confidential information

4. Lack of physical presence
Novel proposals

three building blocks:

(1) Trust development
(2) Exchange of “sharable” Information
(3) Use of already adopted international legal instruments
1. TRUST DEVELOPMENT

• For **transnational CBCs** investigations:
  • Introducing calculus-based trust (CBT) activities between mature and young competition authorities

• For **regional CBCs** investigations:
  • Strengthening/inducing knowledge-based trust (KBT) through informal cooperation arrangements amongst young competition authorities
  • Inducing the agencies to cooperate through “coordination games” schemes (beyond the prisoners’ dilemma/PD) such as “Assurance or Stag Hunt Game”; “Battle of the sexes BOS” or “Hawk-Dove HD” games.
2. Setting up an international benchmark for the definition of “sharable information”

Most common benchmark for confidential information:
(1) the information is NOT publically available;
(2) requested by the entity that provides the information;
(3) the information needs to be justified, i.e. industrial secrets on prices, and the like;
(4) summary of the non-confidential information must be provided

Proposed benchmark:
(1) existence of a formal and open investigation;
(2) theories of harm, markets or remedies;
(3) industry background;
(4) the formation of the cartel.
3. Strengthening the ICN Framework for promotion of sharing non-confidential information for cartel enforcement

- Weaving the UN mechanism into the ICN
- Work with young and small competition regimes
- Wider membership
Reinforcing the ICN Framework to foster international cooperation in case investigations

Source: Own elaboration based on the Japan proposal of 2015
Testing the novel solutions with enforcers: results of the interviews made at the latest ICN Porto 2017

- **Trust Development**: measures to develop the first stage of trust (CBT) is to suggest activities that would close the gap between these authorities such as technical assistance and capacity building in selected beneficiary jurisdictions.

- **“sharable” information**: should be provided on the basis of trust and leniency waivers. In the absence of that, “conditional information gateways”.

- **Platform (ICN & UN)**: can complement each other without additional costs to cooperation. Moving towards multilateral platforms.
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Working paper published on how UN and ICN can work together:

David & Goliath: How young competition agencies can succeed in fighting cross-border cartels
Pierre M. Horna

Abstract:
How can small and young agencies cope and target cross border cartels? This paper explores the related challenges and puts forward a pragmatic tool to break down international cooperation barriers. Given the efforts of the ICN in seeking ways and means to operationalise cross-border cooperation in investigation of cases as well as those of selected UNCTAD member States in trying to trigger the international measures section of the UN Set on Competition, this brief contribution attempts to strengthen the ICN framework for non-confidential information sharing between competition agencies by incorporating specific key elements that are provided by the section F.4 related to voluntary consultations so as to address effectively the harmful effects of international cartels in emerging markets.

Keywords: competition, international cooperation, United Nations, voluntary consultations, sharing of non-confidential information

JEL codes: K21, K33, K39