VEXING COMPETITION QUESTIONS: PANEL DISCUSSION

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Economists from the Competition Branch of the Commerce Commission will lead a discussion on two topics that regularly arise in merger transactions:

(i) the use of countervailing power in markets unrelated to the merger to discipline a price increase in the market subject to the transaction; and

(ii) how the ability of intermediate purchasers to pass-through input price increases impact on their willingness to seek to discipline an input price increase as a result of merger.

The Merger and Acquisition Guidelines indicate buyers may be able to discipline a price increase in one market by changing their purchasing decisions in a market with more competitive alternatives. Of interest is when a buyer, which is otherwise profit-maximising, would find it beneficial to change its purchasing decisions in one market to its benefit in another? And what market characteristics and supporting evidence should the Commission seek to assess this possibility?

In regard to topic two, a great number of mergers are in input markets where the purchasers may have some ability to pass through a cost increase (most often downstream but in some cases to other input markets as a result of a market-wide change in willingness to pay). While economic theory suggests that firms should seek to cost-minimise regardless of pass-through, the ability to pass through appears to impact the extent to which firms are concerned about upstream mergers. What further light can economics shed on these types of situations and how can the Commission best address them?