

# **Exclusion Via Conditional Pricing: Keeping It Simple**

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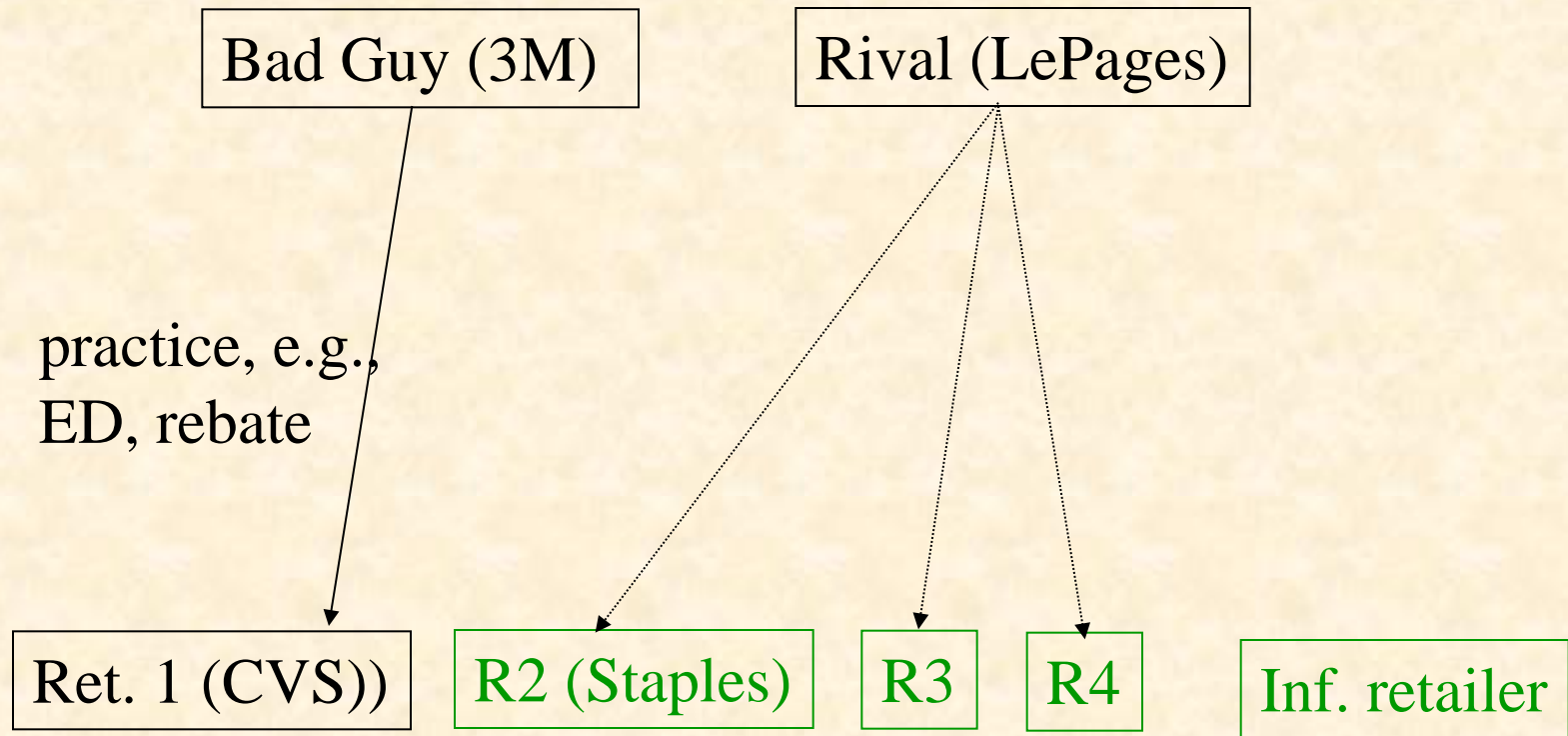
**\*Currently Chief Economist, Federal Communications Commission. The opinions expressed in this paper are those of the author and do not necessarily represent the positions of the Federal Communications Commission or the United States Government.**

# A moment of background

- **To raise rivals' costs, need to raise price of inputs**
  - Truism; expand to complements
  - Need to reduce competition in input/complement market
- **Bundled rebate cases**
  - Factoid: Purchasers competing intermediate good providers
  - Upstream inputs, downstream buyers: complements
- **Do contracts suppress competition among them?**
  - Cartelize/monopolize complement market
  - Exclusive dealing; loyalty, bundle discounts
- **Complement participants parties, not victims**
  - Payments: share cartel profits
  - Focus on complement, e.g., entry, expansion barriers

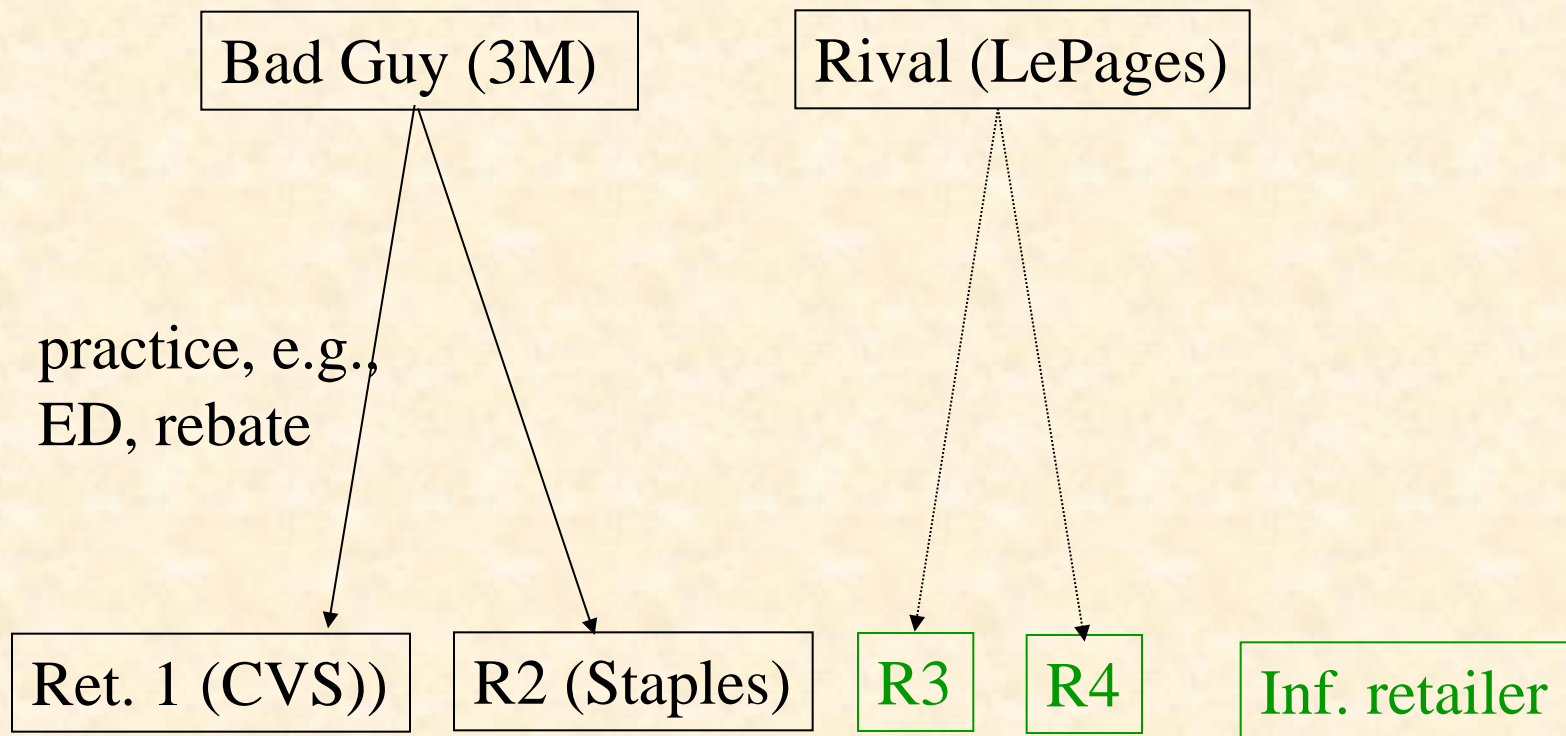
## Illustration: Free pass for the first instance

- Just one doesn't increase market power
- Regulated industries exception



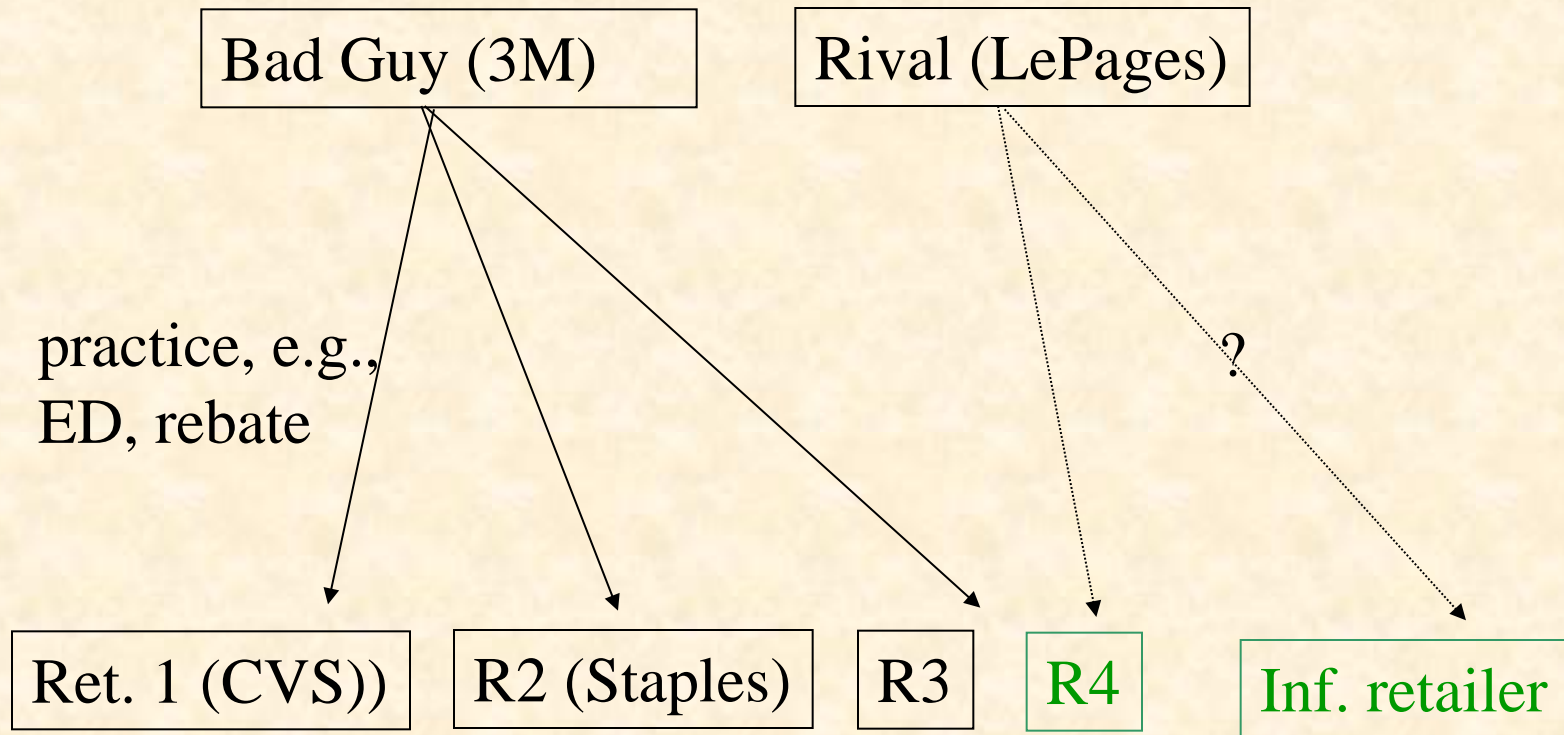
## More extensive practices raise concern

- Adding another retailer may raise concern
- Horizontal expansion in complement market



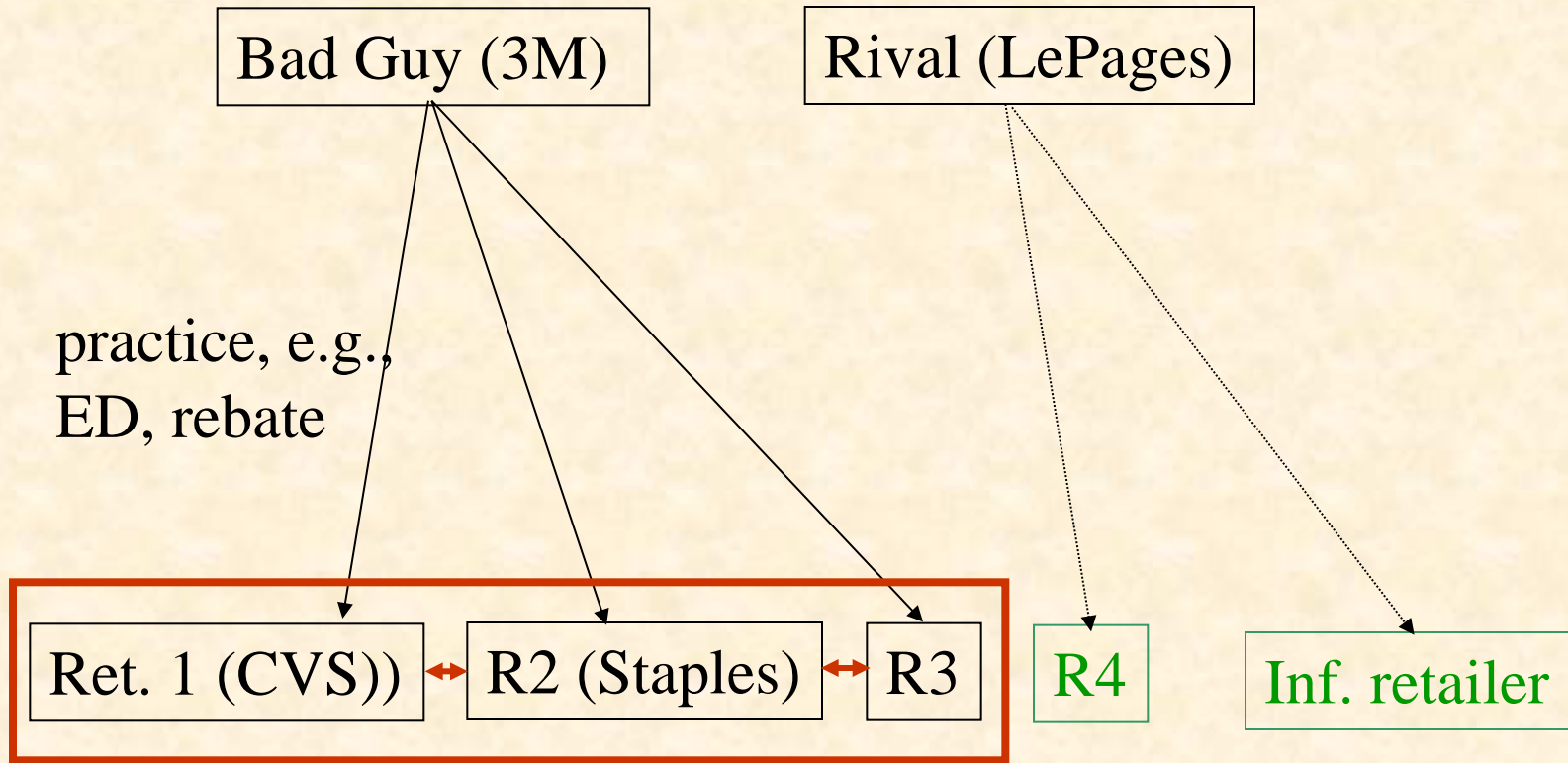
# May acquire complement mkt. power

- Rival harmed as buyer of complement
- Delineate complement market: Would SSNIP bring in inferior retailer?



# Equivalent to merger in complement

- Effective linkage horizontal
- SLC: inferior retailer margin, not bad guy cost



## Questions, very briefly

- **What happened to theory?**
  - Since signers not victims, no mystery beyond Coase theorem
  - Not that there aren't models
- **What happened to AMC price tests?**
  - Irrelevant; theory not predation, issue not overdeterrence risk
- **What happened to “Chicago school”?**
  - Harm: eliminating competition in complement market
  - No monopoly in “perpetrator” market
- **What about prior dominance?**
  - Weakens marginal effect of exclusion via conditional pricing
  - Little guy could do it

# More questions

- **What about competition to exclude?**
  - Could happen; harm still there; complement providers get rents
  - Ralph Winter @ FTC last month
- **How much is enough?**
  - Overcoming ED advantages equivalent to “efficient entrant” test (no time here, like ECPR).
  - Too strict; less efficient entrants can still increase competition
  - Question about margin, e.g., when discounts kick in
- **What about vertical efficiencies?**
  - Totally; => not “all or nothing” remedies, but limits
  - Allow deals with some complement providers
- **Undoubtedly others to come!!**