

Reviewing the economic effects of Cartels

Background

The Commerce Commission is a competition agency that helps to prevent anti-competitive behaviour and ensures better market outcomes for consumers. One way the Commission does this is by discovering and prosecuting cartels.

A cartel is an organisation of competing firms who have agreed to work together to increase their profits by controlling prices (also known as price-fixing), limiting production, fixing market shares or allocating customers. Cartels are illegal under the Commerce Act 1986.

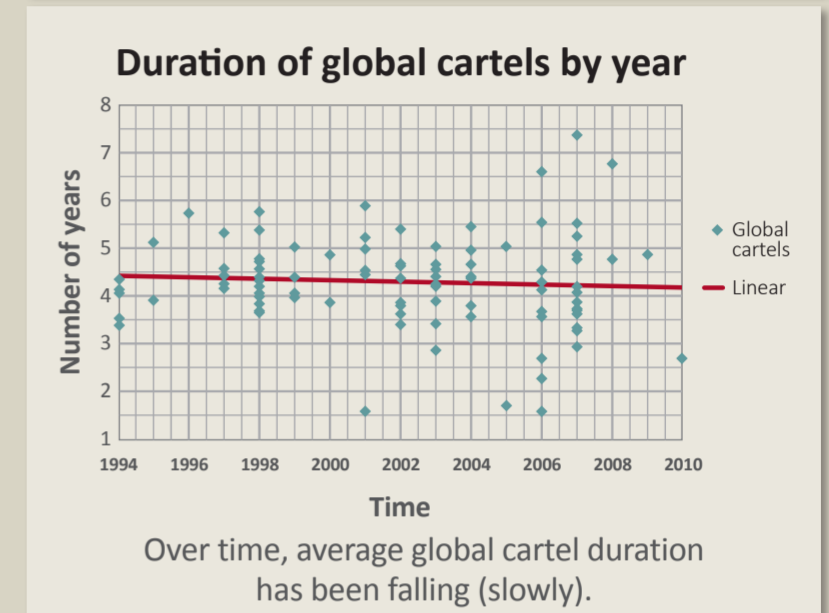
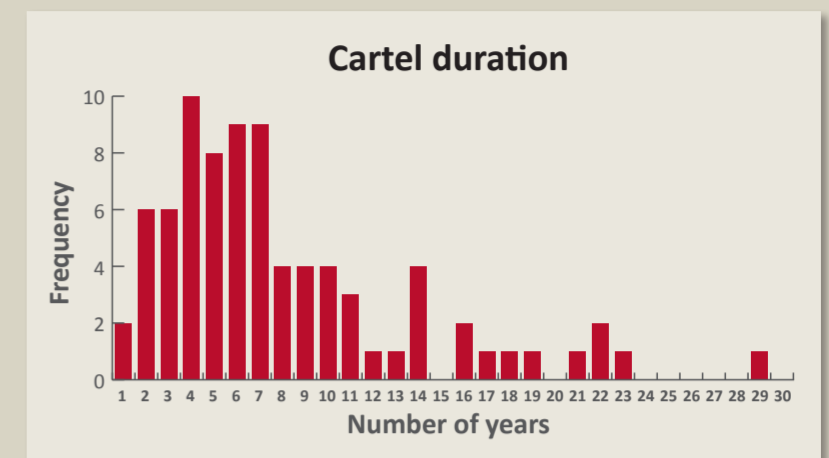
Competition agencies need to keep up to date with the academic writings. I undertook a literature review to identify what the aggregate economic effects of cartels are, as well as identify what additional steps can be taken by competition agencies to detect cartels. This provides the Commerce Commission a broader context for cartel cases it takes now and in the future, as well as offer additional tools to deter and detect cartels.



FINDINGS

Cartel Duration

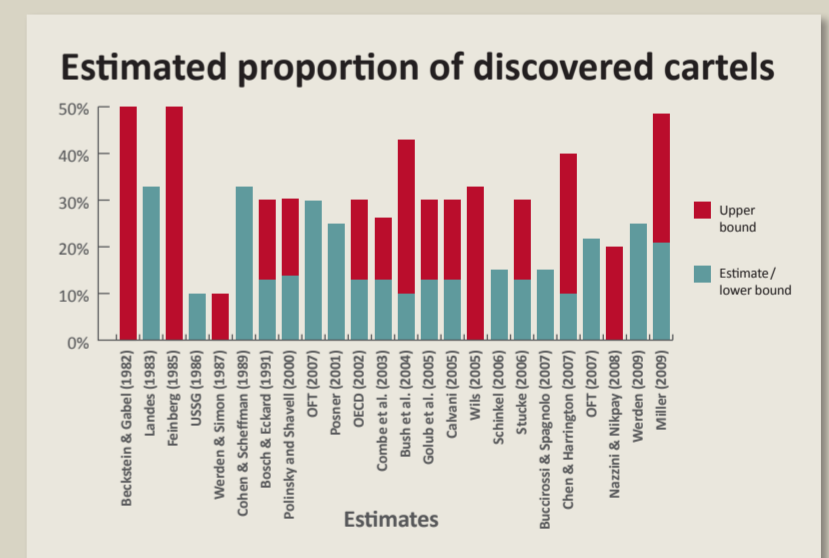
The cartel duration is the period of time that the cartel operates and charges higher prices. Generally, cartel studies find the median cartel duration to be between five and seven years. Cartels tend to either collapse relatively quickly, due to internal instability or overt activity, or last a relatively long time.



FINDINGS

Cartel Prevalence

Academics and competition authorities do not know how many cartels there are out there in the global marketplace. This table compares the estimates of the proportion of discovered cartels to all cartels over 24 studies. The academic consensus is that only 10% to 33% of cartels are discovered.



RECOMMENDATIONS

The academic literature identifies additional three ways that competition authorities could use to detect cartels:

- One-third of cartels buy and sell among themselves to maintain internal stability when faced with fluctuating market forces. Looking at these compensation schemes can provide evidence of collusion.
- One-third of cartels use industry associations to communicate among cartel members. Inspecting industry associations may yield evidence of collusion.
- Competition authorities have recently started to use leniency policies, offering reduced penalties for the first cartel member to come forward and help with the investigation. Developing and implementing effective leniency policies will help deter and detect cartels.



FINDINGS

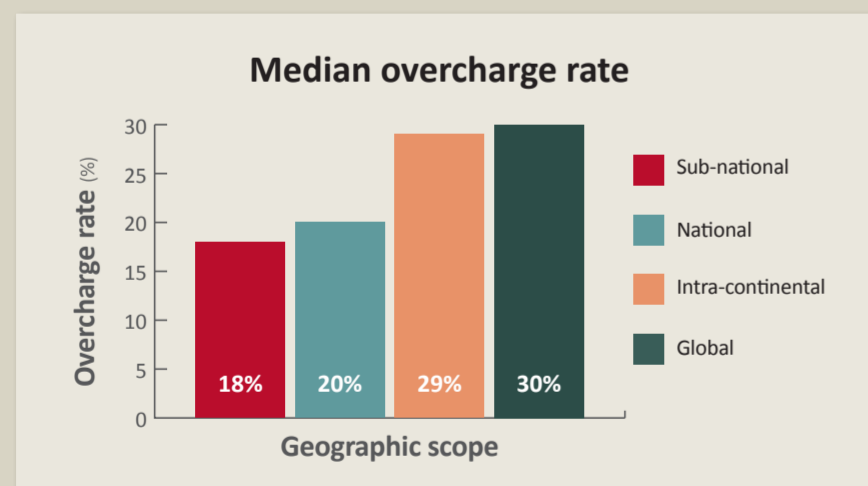
Cartel Overcharge

The cartel overcharge rate is the percentage increase in price as a result of a cartel's activities. The median cartel overcharge rate is 23% above the price that would have been charged if the cartel did not exist (the 'but-for' price).

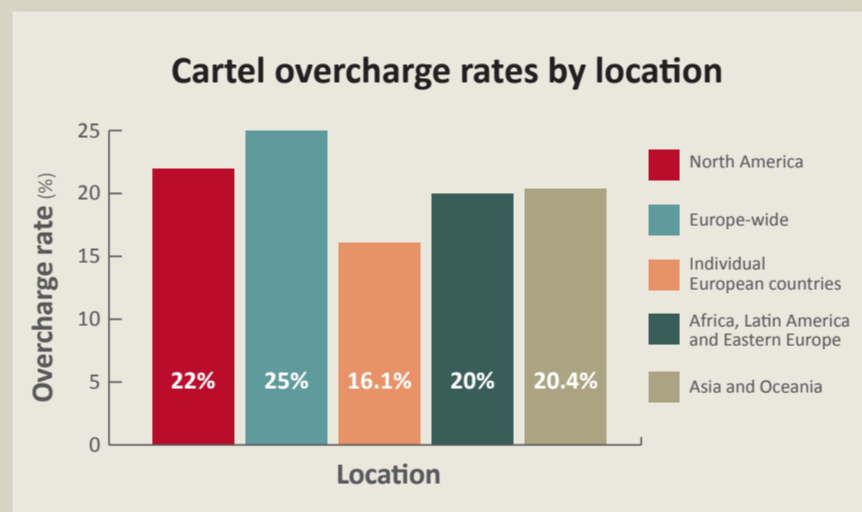
One data set indicated that cartels have overcharged at least 1.6 trillion USD and convictions from over 700 cartels have resulted in monetary penalties of over 123 billion USD.



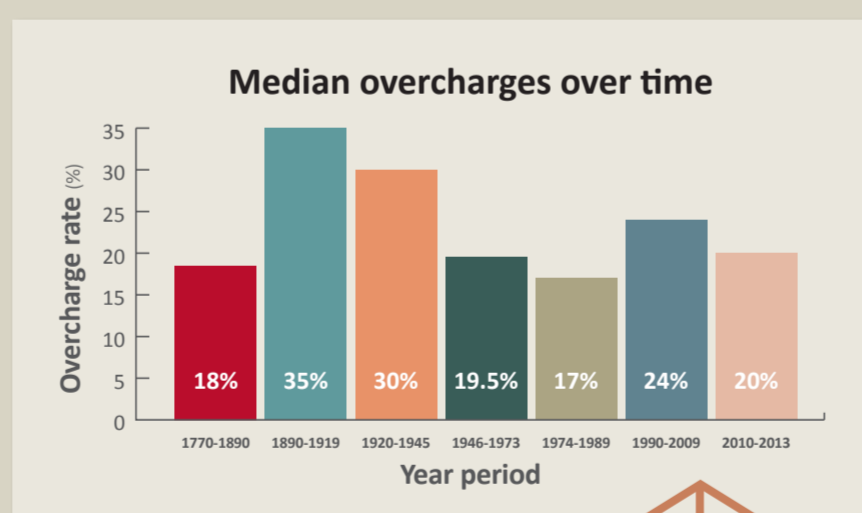
Global cartels are able to overcharge a median of 30.4% above the but-for price. The wider the geographic scope of the cartel, the more market power it has, and the higher price it can charge.



Cartels have relatively similar overcharges around the world. A study with a sample of 249 cartels prosecuted in developing countries between the years 1995 and 2013 found the median overcharge to be 20%. This shows that overcharges in developing countries are similar to those experienced in developed countries.



Over time, the trend has been that cartel overcharges have fallen since the pre-World War I and inter-war period. Some reasons for this trend include globalisation that results in lower profits, a shift away from commodity cartels (with high margins) to chemical, construction and service cartels (with lower margins).



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