

△ Monopsony is a market structure in which a *single buyer* (or a single dominant buyer with a competitive fringe of small buyers) faces a *perfectly competitive* market of suppliers – the suppliers are all price takers and have no bargaining power of their own. The marginal costs of suppliers increase with increasing production. A monopsonist *reduces the price* by lowering the number of inputs it purchases thus creating a deadweight loss. (Blair and Harrison, 2010)

△ Buyer power refers to the ability of a firm or group of firms to obtain from suppliers terms *more favorable than* those available to other buyers or which would otherwise arise *under normal competitive conditions*. (Dobson, Waterson & Chu, 1998)

Who's Afraid of Monopsony Power?

Monopsony Awareness Zone
Test Yourself!

Article 101 TFEU

Is the conduct in breach of Article 101 TFEU? If so, what type of breach is it? And what is the applicable standard of assessment?

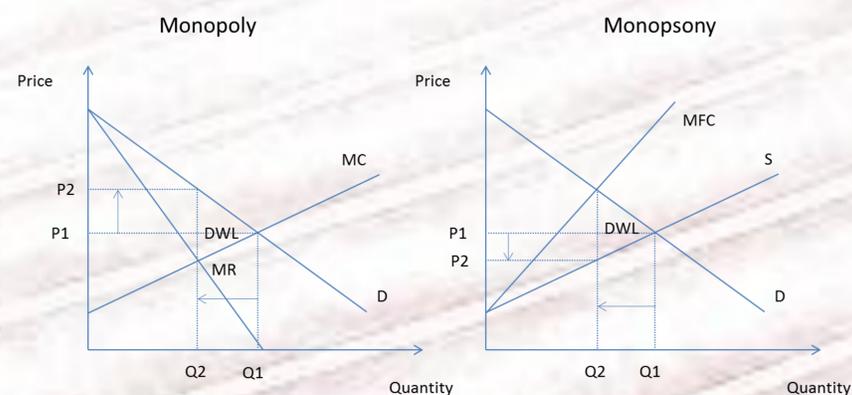
- ▣ The most important purchasers of tobacco in a given country organize regular meetings to set the prices and quantities they will buy from each supplier and to assign suppliers.
- ▣ The leading employers in the technology sector make an agreement not to poach each other's software engineers.
- ▣ The producers of pasta commit to using lower quantities of durum wheat in their pasta products in order to drive down the price of this input.
- ▣ The major employers in the oil sector hire a consulting company to advise them on salaries and benefits offered to certain types of highly qualified, non-unionized employees. Through the consultancy, the companies exchange information and are able to coordinate their policies with respect to the compensation of the employees concerned.
- ▣ A number of medium-sized purchasers of medical supplies combine their orders in order to increase their bargaining power and save on transaction costs. The purchasers are active on different downstream markets.

Article 102 TFEU

Is the conduct in breach of Article 102 TFEU? If so, what type of breach is it? What theory of harm and what standard of assessment apply?

- ▣ Following a merger between two slaughterhouses, the merged entity finds itself the dominant buyer of pigs in a certain geographical market. Enjoying its new power, the now dominant buyer decides to lower its price per kilo of pig.
- ▣ A dominant buyer of tomatoes is having a difficult quarter with dwindling profits. It unilaterally decides to cut the payment due by contract to some of its suppliers by a certain amount. To avoid complaints, it puts it in the invoice as either "administrative cost" or "marketing contribution".
- ▣ Two sawmills represent the major purchasers of timber in a given area. One of the mills has deeper pockets and decides to bid up the price of timber. As a result, the other mill is unable to obtain enough timber and exits the market.
- ▣ A major supermarket carries both private label products and other brands. The profits from a certain private label product are very lucrative and the supermarket would like to increase those. However, there is strong competition from a certain other brand offering similar quality for a similar price. The supermarket decides to stop carrying this other brand.
- ▣ A major online retailer fails to reach an agreement with one of its suppliers. As a result, the retailer decides to deteriorate the quality of services to the remaining products of the supplier concerned.

DWL = DWL



The Monopsony Paradox



Monopsony and buyer power, just as monopoly and seller power, can be harmful for efficiency and for the competitive process. Despite this, monopsony issues are neglected by the Commission and by the competition law community. The enforcement gap combined with lack of guidelines leads to divergences at the national level and to unnecessary and harmful partitioning of the internal market.



Research Agenda

The Silent Approach to Monopsony

- △ Virtually no buyer power cases undertaken by the Commission
- △ No guidance for businesses or for national competition authorities on crucial issues such as relevant *purchasing* market analysis, criteria for finding *buyer* dominance and types of buyer power abuse
- △ Proliferation of a variety of diverging national approaches to buyer power
- △ **The current approach - contradictory to the modernization agenda?**

- △ What are the economic effects of monopsony and buyer power?
- △ To what extent *does* EU competition law apply?
 - △ Under what conditions does Art. 101 TFEU apply to anticompetitive cooperation by buyers?
 - △ Under what conditions does Art. 102 TFEU apply to anticompetitive conduct by powerful buyers?
 - △ What is the scope of the consumer welfare (harm) requirement?
- △ What is the role of EU competition law in regulating the exercise of buyer power considering the possibility for action at the national level and the availability of other types of policy responses?

