



# Across Platforms Parity Agreements

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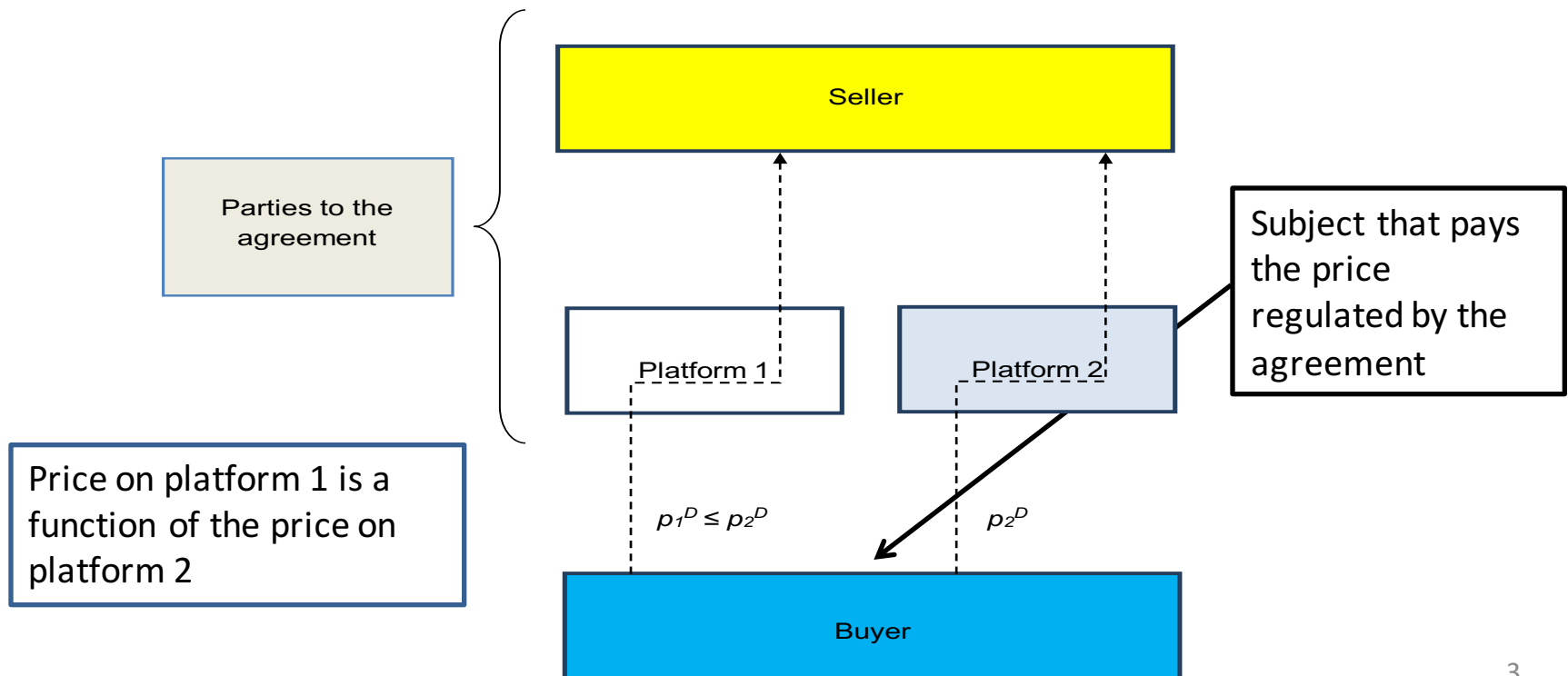
## Outline

- Description of various Vertical-PRAs
- Applicable theories of harm
- Efficiency justifications
- Conclusions



## Across-Platform Parity Agreement

- Agreement between a seller and an (electronic) trade platform whereby the seller undertakes to charge on that platform a price that is not higher than the price charged on other platforms (including new entrants and the seller's own platform)





## Why we call them APPAs?

APPAs are one of many “Best Pricing Policies”

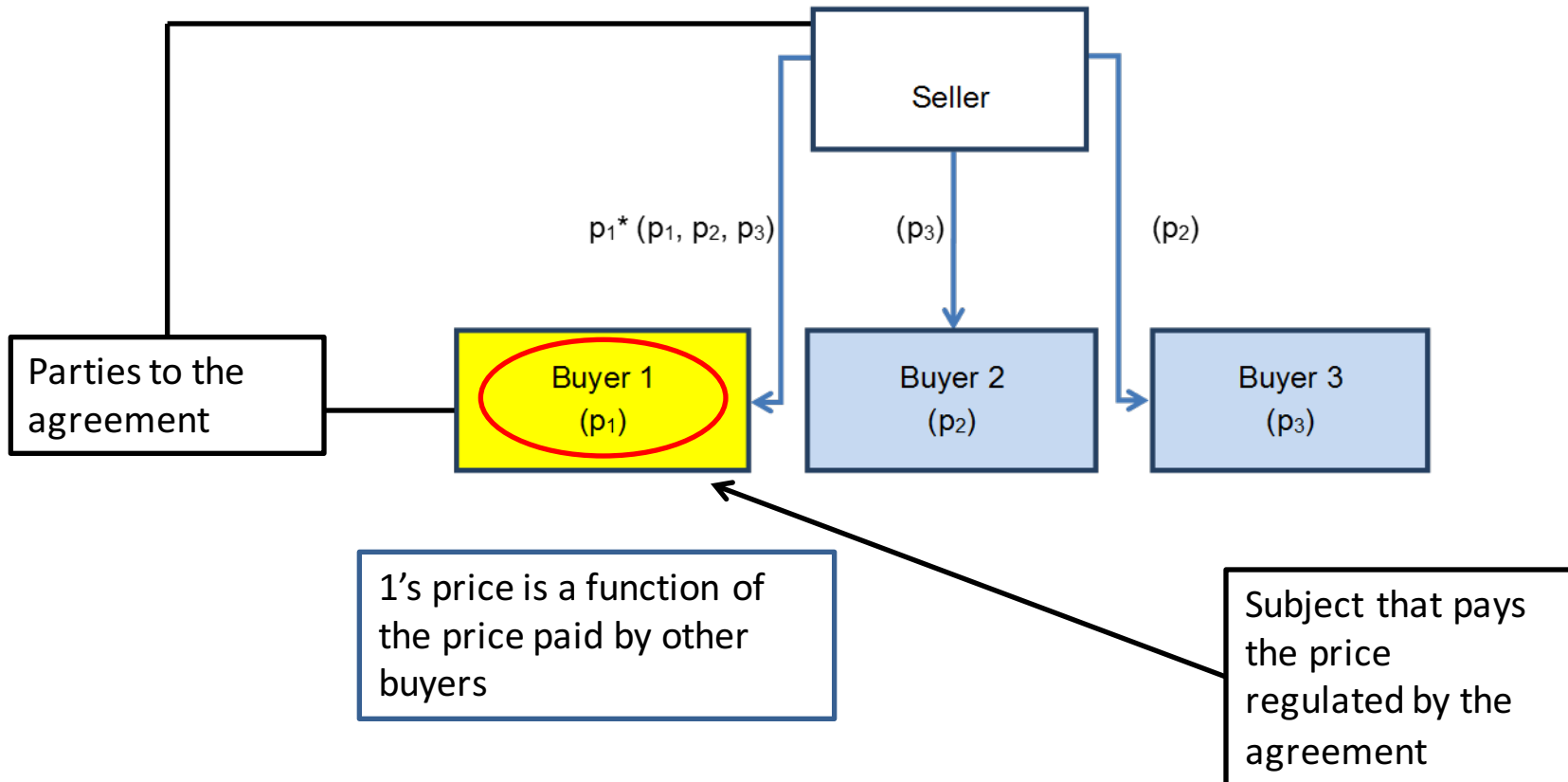
Lear (2012) Report for the UK OFT:

Across-Customers: Traditional MFN

Across-Sellers: Price Matching (or Beating) Guarantee

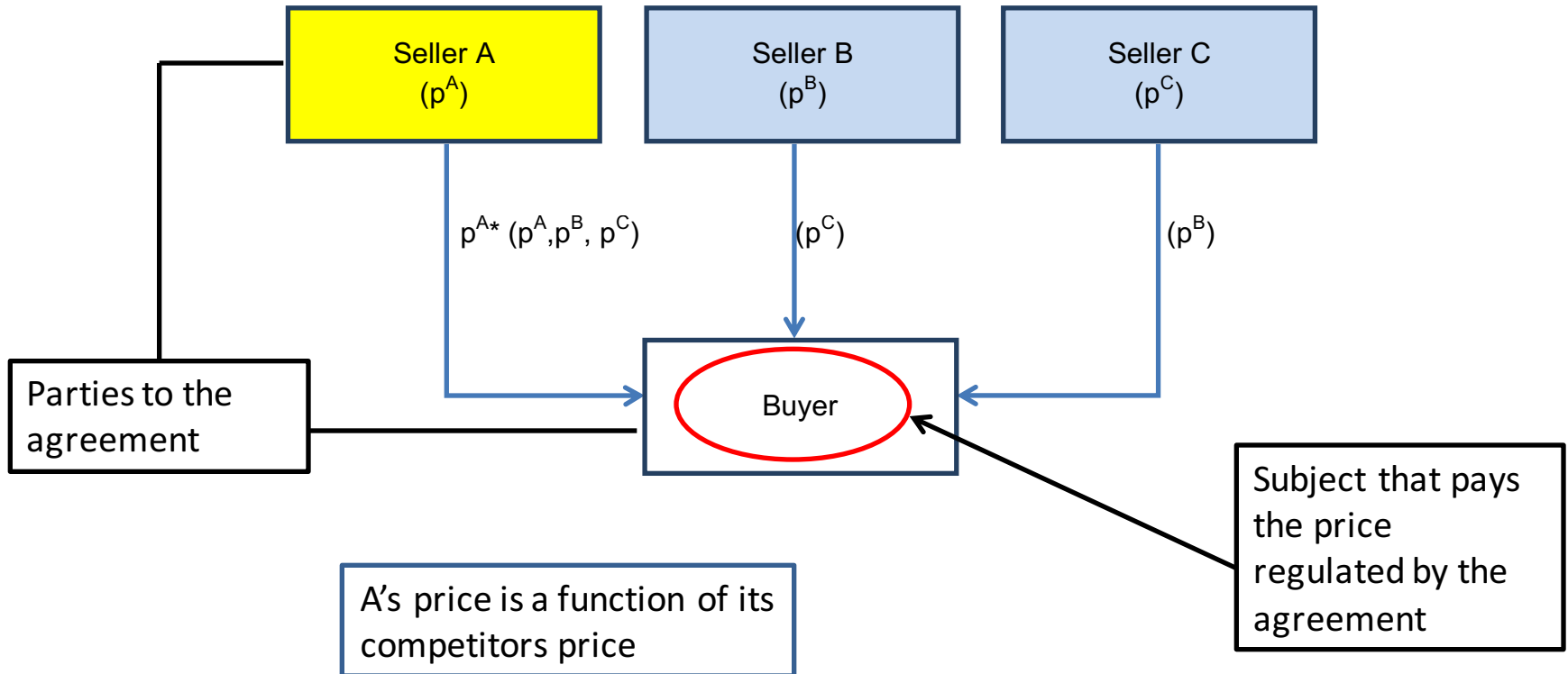


## Across-Customers Best Pricing Policy (e.g. Most Favored Nation)





## Across-Sellers Best Pricing Policy (e.g. price-matching guarantee)





## APPAs: Case Law

1. E-book (USA, EU)
2. Amazon (Germany, UK)
3. Motor Insurance (UK)
4. Online Travel Agents (UK)
5. Online Travel Agents – HRS (Germany)
6. Online Travel Agents – Booking, Expedia (Italy, France, Swede, Germany, and many others)



## APPAs: Theories of harm

1. Softening competition/Collusion in the product market (e-book cases)
2. Softening Competition in the platform market (OTAs, Motor Insurance)
3. Foreclosure in the platform market (Amazon, OTAs)





## APPAs: Efficiency justifications

1. Preventing free-riding on investments in ancillary services in the platform market (Amazon, OTAs)
2. Facilitating entry in the platform market (e-book)
3. Signaling low cost/low price strategies and reduce search costs (OTAs)



## Theory of harm for Across-Sellers PRAs/2

2. Entry foreclosure (Salop, 1986; Arbatskaya, 2001)

How: (Same as above) Reduce potential competitors' demand price elasticity when they undercut

Is this theory of harm appropriate also to Vertical-PRAs?

YES (but unlikely for price relativities agreement)

How: Reduce potential rival (indirect) demand price elasticity when it enters with a lower wholesale price or Reduce demand for an entrant platform that enters with a low-price strategy



## Theory of harm for RPM

1. Facilitating collusion (Mathewson and Winter, 1998; Julien and Rey, 2007)

How: Retail prices are less responsive to change in retail costs -> wholesale prices can be inferred by observing retail prices -> increased transparency

Is this theory of harm appropriate also to Vertical-PRAs?

YES

How: Retail prices are less responsive to change in retail or platform costs, etc.



## Economic justifications Across-Sellers PRAs

1. Signalling low cost/price (Winter, 2001; Moorthy and Winter, 2006; Hviid, 2010)

Necessary condition: Buyers have imperfect information on prices but can easily observe the pricing policy

Is this economic justification appropriate also to Vertical-PRAs?

NO

Why: End consumers do not observe the pricing policy



## APPAs: Efficiency justification

- Protect investments made to develop the platform (esp. ancillary services needed to reduce info asymmetry), very important in two-sided markets
- Eliminate free-riding on the platform investments by low-price competitors



## Conclusions

- “Object infringement” inappropriate
- Yet potentially very dangerous
- A full fledged analysis of the possible theories of harm and efficiency justifications is recommended



**Grazie!**