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Panel I - Market Definition: Classic Methods and Issues

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Disclaimer: the views expressed are those of the speaker only and cannot be regarded as stating an official position of the European Commission

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Why do we do market definition?

- Market definition is necessary to **calculate market shares / concentration indices**

- Market definition useful to **identify competitive constraints** on firms. Competitors "in the market" tend to exert a stronger constraint than competitors outside the market.

- Market definition is one step in the **assessment of market power** (not necessarily the first).

Market definition in the Commission's practice

- Commission uses a **variety of tools** (incl. empirical analyses…)

- Commission takes a **practical approach**. The reality is rarely "black or white".
  - Product or geographic **differentiation** within the market
  - Competitive **constraints from "outside the market"** (which tend to be weaker than constraints within the market)

- Market definition **depends on the issues** of the case and is **done in parallel with the competitive assessment**.
  - Markets may be narrower than business perceptions.
  - Commission's market definition generally "fit for purpose" of competition policy assessment. (See e.g. **Fletcher and Lyons (2016)**)

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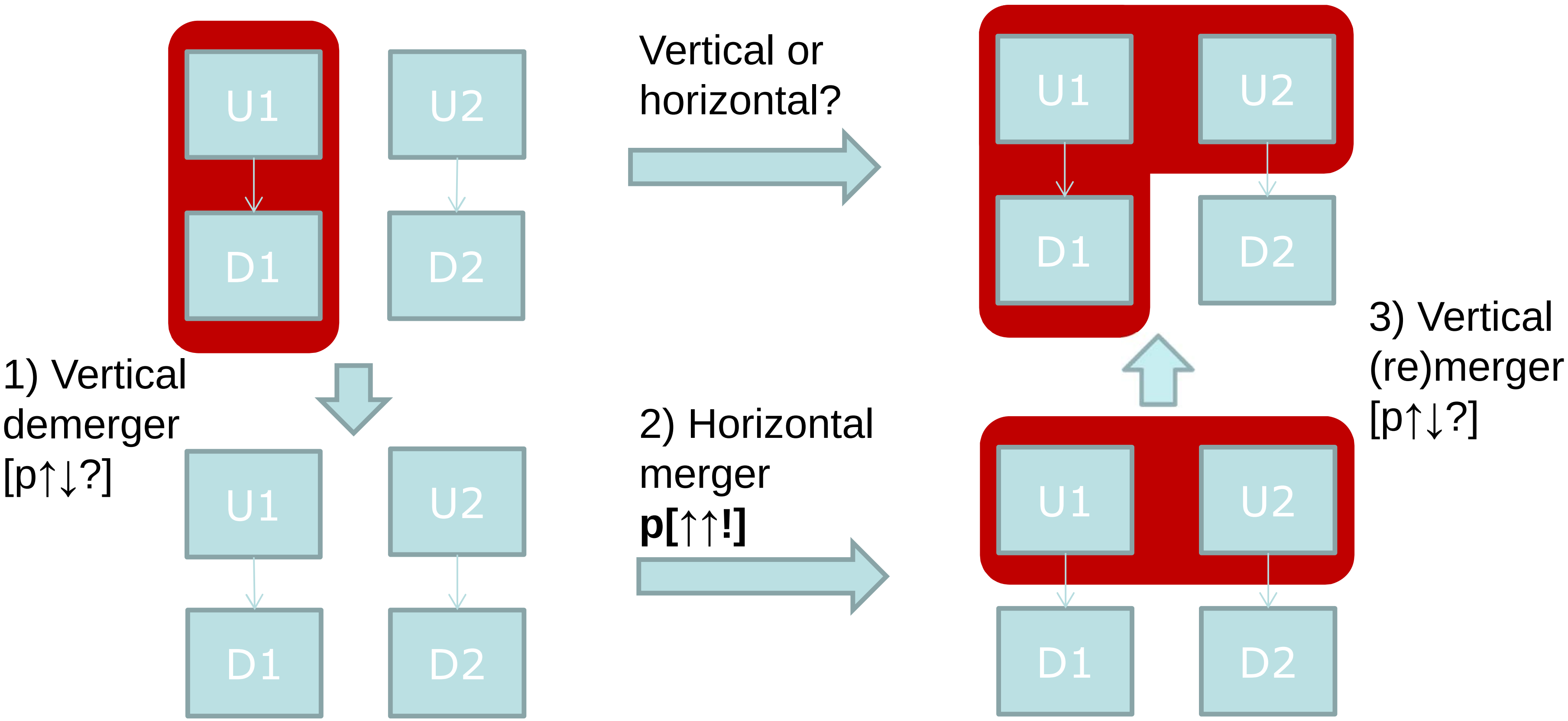
Example: Deutsche Börse/LSE (1)

- Proposed transaction would have brought together two of the main **clearing houses** for derivatives in Europe
    - Customers require **vertical stack/bundle** of "trading", "clearing" and "settlement" of derivative transactions
    - Deutsche Börse supplied these services only as an integrated stack/bundle (**"captive sales"** of clearing services only)
    - LSE supplied clearing services to third parties in the **"merchant market"** (via LCH SA and LCH Ltd).
- Should the transaction be assessed as a **vertical merger or** as a **horizontal merger**?

Example: Deutsche Börse/LSE (2)



Main effect arises from horizontal combination of U1 with U2. Assessed as **horizontal competition** in a **"bundle-to-bundle"** market in DB/LSE

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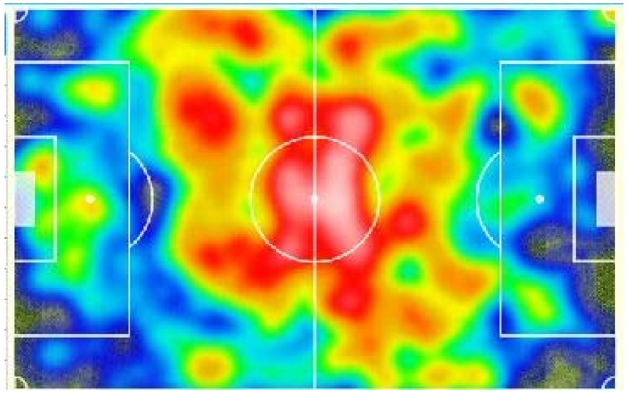
Example: Geographically differentiated markets (heatmaps)



- In high transport cost industries **firms' location relative to customers matters!**
- Competitive conditions **vary smoothly** with location and are different for each customer

- With detailed data, one can compute **location specific concen-tration measures** which can be visualised by heatmaps, e.g.
  - Share of sales in area around customers
  - Number or capacity share of suppliers within reach of customer

- Although not direct measures of effects, this can **help identify problem areas** (even "within market") circumventing too rigid "black or white" market definitions

Conclusions

- Commission takes **practical approach** that accounts for realities of markets (such as **differentiation within market**) and uses different techniques as appropriate

- The real issue is how to **measure market power in different environments**
  - Constraints from imports outside the market
  - Bidding analysis / customer specific prices
  - Sales versus capacity shares

- Market definition is only one piece in the puzzle