

Market definition and substantial market power

Definition of the relevant market

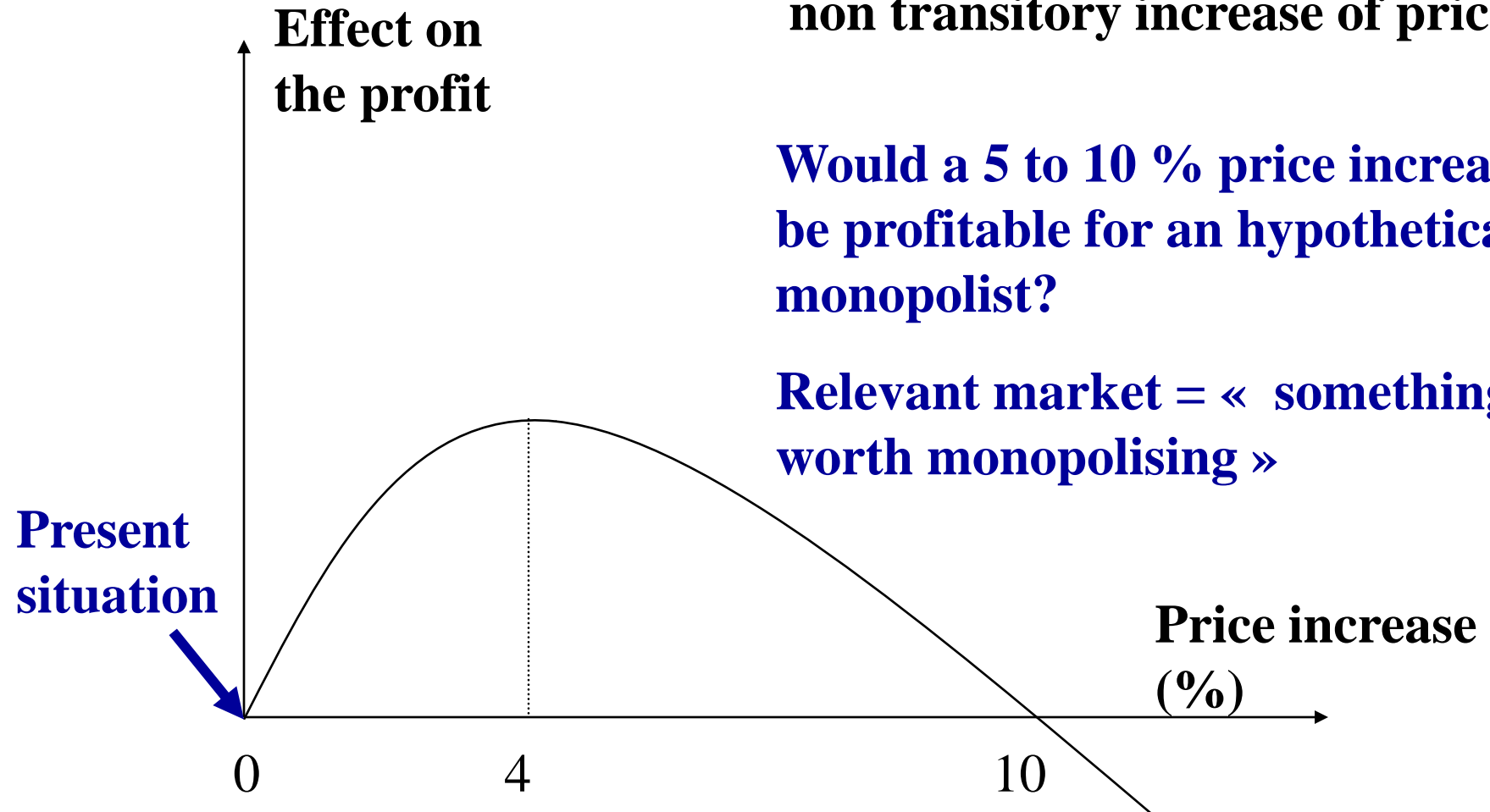
- Very important for the subsequent assessment of the position of firms.
- Objective : evaluation of market power of a firm, i.e., ability to raise its prices above the competitive level, without a loss in profits due to the loss of sales resulting from the increase in prices.
- Well beyond the simple market share.

The SSNIP Test

SSNIP = Small but significant non transitory increase of price

Would a 5 to 10 % price increase be profitable for an hypothetical monopolist?

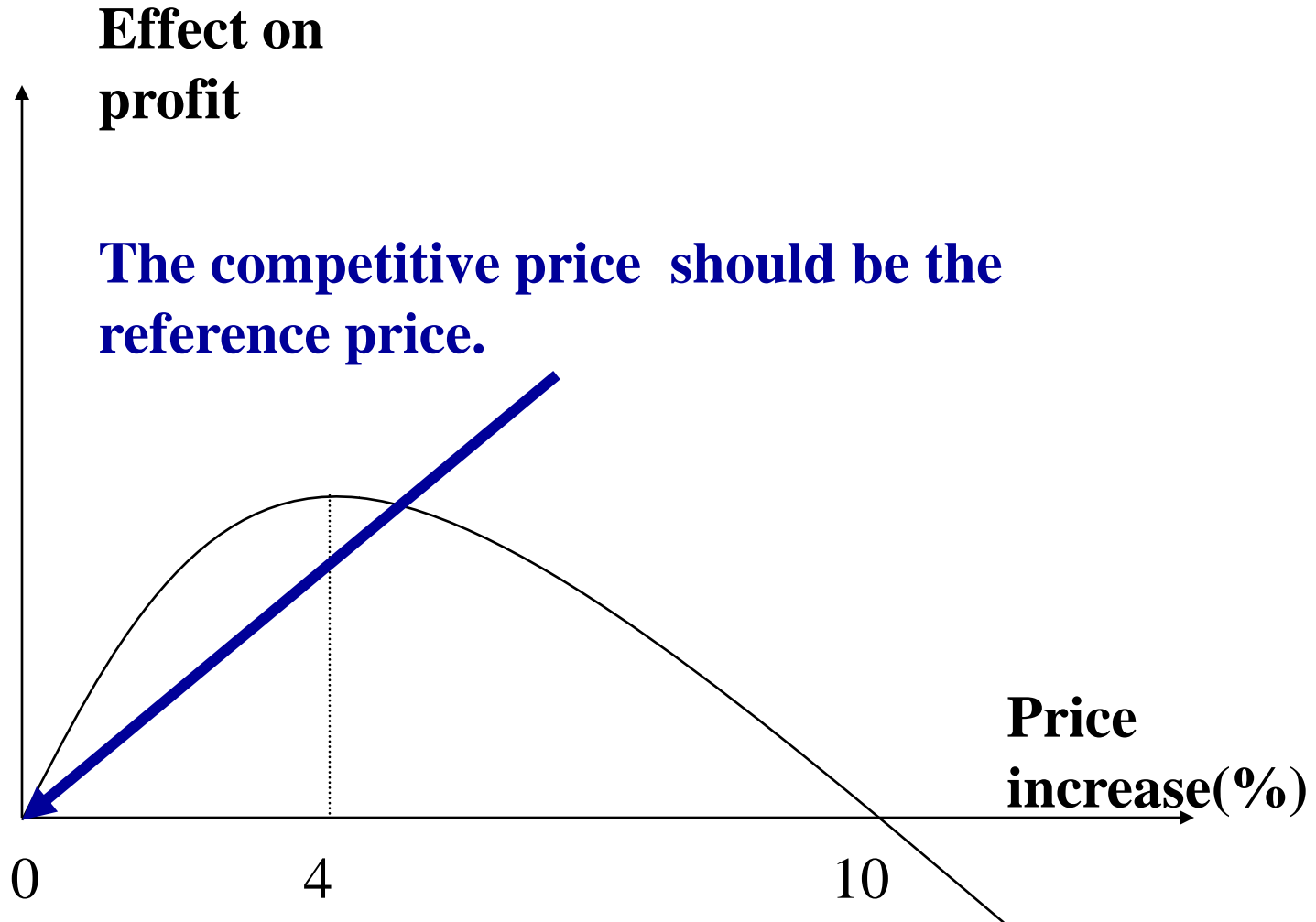
Relevant market = « something worth monopolising »



« The Cellophane fallacy »

- US case against Du Pont de Nemours (1956)
- If the firm already sets monopoly prices, then the price increase with respect to the present situation is not profitable.
- The test leads wrongly to define a wider market.
- The elasticities of substitution increase with the price levels :
 - If the initial situation is a monopoly one, the test leads to define false substitutes;
 - The idea is rather to find products that are substitutes to the original one **at competitive prices.**

« Cellophane fallacy »



In practice

- The competitive price is seldom easy to identify.
- « Solutions » :
 - use other characteristics of the good, its various uses,
 - *“In most cases it is not decisive that a certain group of consumers does not consider the products in question to be good substitutes. What matters is that a sufficiently large number of consumers”*
(Commission, 1997)
- Try to avoid « toothless fallacy »*

« Toothless fallacy »

- European Court of Justice defined a market for bananas by the following arguments.
- « The banana looks soft and sweet, it is seedless and easy to handel, and the production level allows to satisfy the permanent needs of an important proportion of elderly people, children and sick persons ».
- Some commentators called this description the toothless fallacy (too general, etc...)

Final remarks

- No unicity of the relevant market :
- Example : the ADSL technology allows to offer simultaneously high speed internet+TV+ telephone. Not a substitute for telephone, nor for TV nor for internet on their own.
- Difficult to define relevant markets for emerging goods : ex. on ligne music or films.
- And sometimes no so easy for old ones (keys)