

Discussion of ‘System goods, tying and vertical foreclosure’, by Eric Avenel

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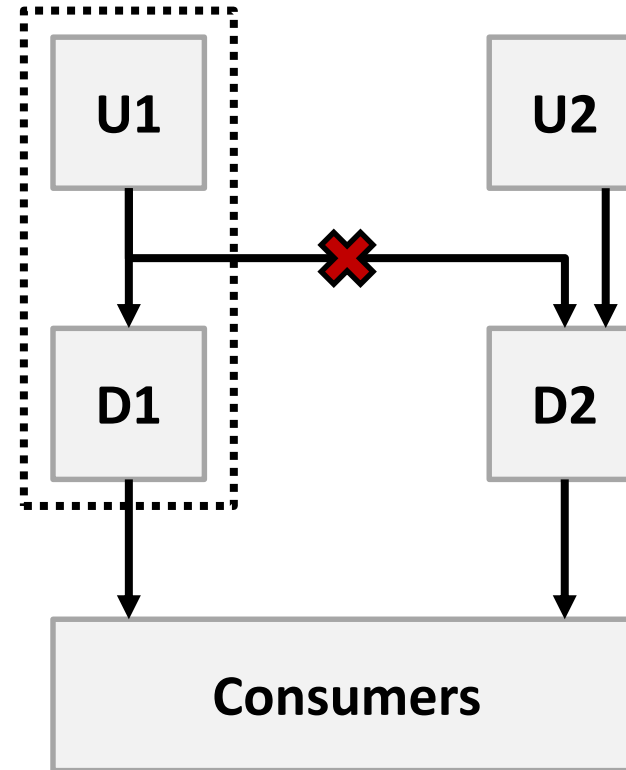
Oxera Consulting LLP and Utrecht University

Context and approach

- Distinction verticals/complements not always clear
 - E.g. tires and tire replacement services
- Foreclosure considered for each separately, e.g.
 - OSS'90 → vertical markets with input foreclosure (IF)
 - W'90 → complements, entry deterrence through tying (T)
- This paper looks at both strategies simultaneously when firms can sell inputs as B2B or B2C

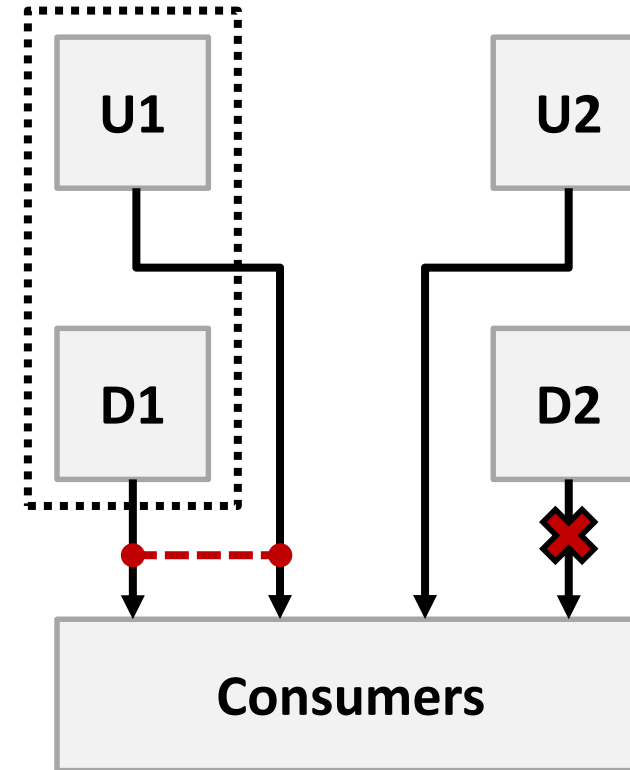
Ordover, Saloner, and Salop (1990, AER)

- Input foreclosure (IF) can be an equilibrium strategy in B2B:
 1. Less upstream competition
 - ↓
 2. Raises downstream rival's cost
 - ↓
 3. Increases own downstream profit



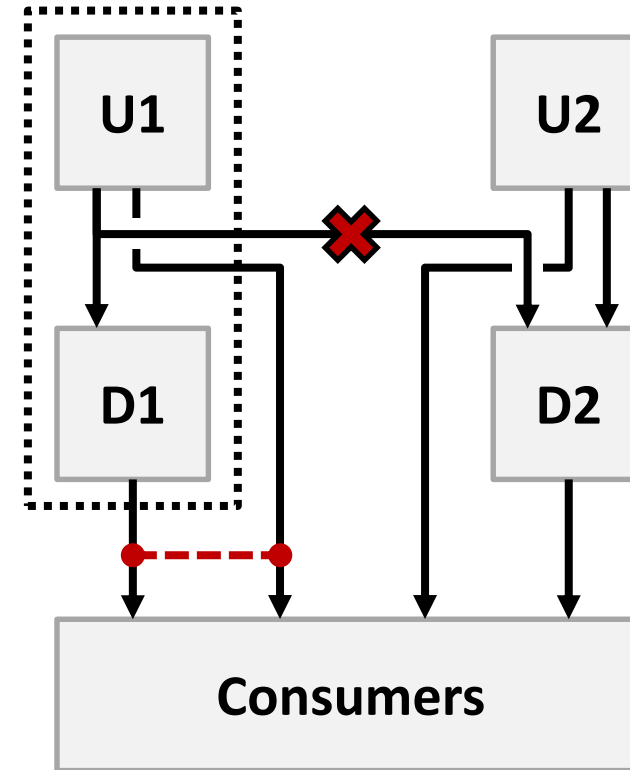
Whinston (1990, AER)

- Irreversible tying (T) can be an equilibrium strategy in B2C:
 1. Integrated firm more to loose if consumer buys unbundled (now also loses profit from 'safe' market)
↓
 2. Bundling creates commitment to more aggressive pricing
↓
 3. May deter entry by D2



This paper

- What if you allow for B2B *and* B2C?
- Integrated firm has four options:
 1. Only internal sales (IF + T)
 2. Only B2C + internal sales (IF)
 3. Only B2B + internal sales (T)
 4. B2C, B2B, and internal sales
- Optimal strategy? Depends on U2



Key findings

- Four scenarios:
 1. U2 absent from B2B and B2C
 2. U2 present in B2B
 3. U2 present in B2C
 4. U2 present in B2B and B2C
- Key findings:
 - If U2 is B2B only, then **IF** optimal (OSS'90)
 - If U2 is B2B+B2C, then **IF + T** optimal (OSS'90 + W'90)

Points of praise

- Novel: few papers consider foreclosure when products can be *both* vertically related *and* complements
- (Fairly) general model, with linear case as annex

Main comments

- Implications? → OSS'90/W'90 already provide the theories of harm (RRC, commitment), novelty here?
- Limitations? → OSS'90/W'90 not the only theories of harm for IF/T and come with their own limitations (e.g. critical assumption on credible commitment, ambiguous welfare effects); not discussed?

Minor comments

- Key findings not immediately clear from abstract, introduction and conclusion (e.g. “sheds new light” at the end of the abstract sounds very abstract)
- OSS'90 and W'90 not in reference list
- Personally found the script symbols (\mathcal{A} , \mathcal{B} , \mathcal{S}) somewhat confusing... Perhaps better to use notation as in OSS'90 (U1, D1, U2, D2)?
- To model decision by \mathcal{A} in a 'stage 0', or simultaneous with \mathcal{S} in stage 1?



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