Intergovernmental Group of Experts on Competition Law and Policy

Geneva, 8-10 July 2013

Roundtable on:
The Impact of Cartels on the Poor

Contribution
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Cartels may be considered as the most egregious of anticompetitive practices and as an evil of the free market economy. Cartels are antagonistic to competitive markets and cause serious harm to consumers. It is probably for this reason that the offence of cartelization has been criminalised in some countries as it is the worst kind of economic offence.

The importance of a competitive market cannot be emphasised enough. Competition ensures that consumers receive the best value for their money, encourages innovation and technological advancements. It operates on the philosophy of survival of the fittest and thereby ensures that the consumers receive what they deserve. In the words of the Union Finance Minister, Shri P Chidambaram in the Annual Day of the Competition Commission of India *"Today, the consumer in India is princess, if not queen - that she will become soon. And business is forced to cater to her interests, and is therefore seen in a better light. We have to ensure that the economy continues on the path of competitive, fair, and transparent business practices, and any aberrations that interrupt the path are set right."*

Cartels are agreements between enterprises not to compete on price, product and/or customers. An important dimension in the definition of a cartel is that it requires an agreement between competing enterprises to restrict competition. Instances of caretlisation may be found across various products. There are some conditions that make it more favourable for competitors in a market to cartelise such as high entry barriers, few players with high market share concentration, low product differentiation, etc. However, these factors are only indicative and cartels may be found in all kinds of industries.

Cartels are an attempt at monopolising markets and thereby extracting monopoly profits from markets that are otherwise competitive. Producers in such a scenario earn supra-normal profits and this reduces incentives to innovate. Consumers, businesses and even governments can be forced to pay higher prices for goods and services. The worst affected however may be easily identified as the lower income groups in a society.

Given the corrupt nature of cartels to extract monopoly rents, the impact gets aggravated when observed against the poor in a society. The lower income group in a society generally tends to consume just the basic necessities. This means that their demand for most items is inelastic. This leaves them as more vulnerable to being easy victims of cartelised commodities. In addition, the poor might also have to forgo expenditure on other items to afford the essential goods given their limited resources. It is very commonly observed that there is a tendency among wholesalers to collude in the pricing of essential commodities or to restrict supply so as to create an artificial scarcity and thus increase prices. It is for this reason that the Indian government has taken precautions to regulate prices of certain commodities under the Essential Commodities Act (1955) so that the poor do not suffer disproportionately as a result of anti-competitive behaviour by traders.

Apart from regular consumers, cartels may also affect small and marginalized producers who use a cartelised product as inputs. This would sufficiently increase their costs of production and reduce their profit margins.

In addition to seller cartels, buyer cartels could also have a detrimental effect, especially on poor farmers. Buyer cartels are observed in major commodity products, such as coffee, cotton, tea, tobacco and milk on which a number of small farmers and many developing countries heavily depend as a major source of revenue. Such products are easy prey to cartelisation by buyers, due to lower bargaining power of small and marginalised farmers.

It is advisable that competition authorities in developing nations give priority to those anti-competitive practices that affect essential goods and services sectors that are more likely to affect the poor. In this manner competition authorities can serve not only as vehicle of efficient growth but also serve as policy tool for economic equity.

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