



Competition and the (re) use of PSI data: Public information, private profit: how should government agencies compete?

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Principal

Competition, vertical integration and non-discrimination

- an extremely common regulatory issue in the utilities
- information has the 'interesting' characteristic of being expensive to create and very cheap to reproduce
- non-rivalous consumption (what I consume does not impact on your ability to consume)

Competition II

- common, but difficult to solve satisfactorily
- the Microsoft case, vertical separation in Telecommunications and 'wires' vs generation in electricity are all examples of the problem
- the interesting information characteristic makes the issue more difficult
- public ownership of the upstream supplier does not necessarily help either

Core issue

- economic efficiency requires
 - price = marginal cost = low/€0
- cost recovery requires:
 - average price = average cost
- conflict
 - best compromise – Ramsey pricing
 - price inversely proportional to price elasticity of demand, but industry, not firm, elasticity
- competition rules require:
 - non discrimination between
 1. all suppliers in the *same* downstream market
 2. the downstream activities of the integrated supplier

difficult to meet all these requirements
simultaneously!

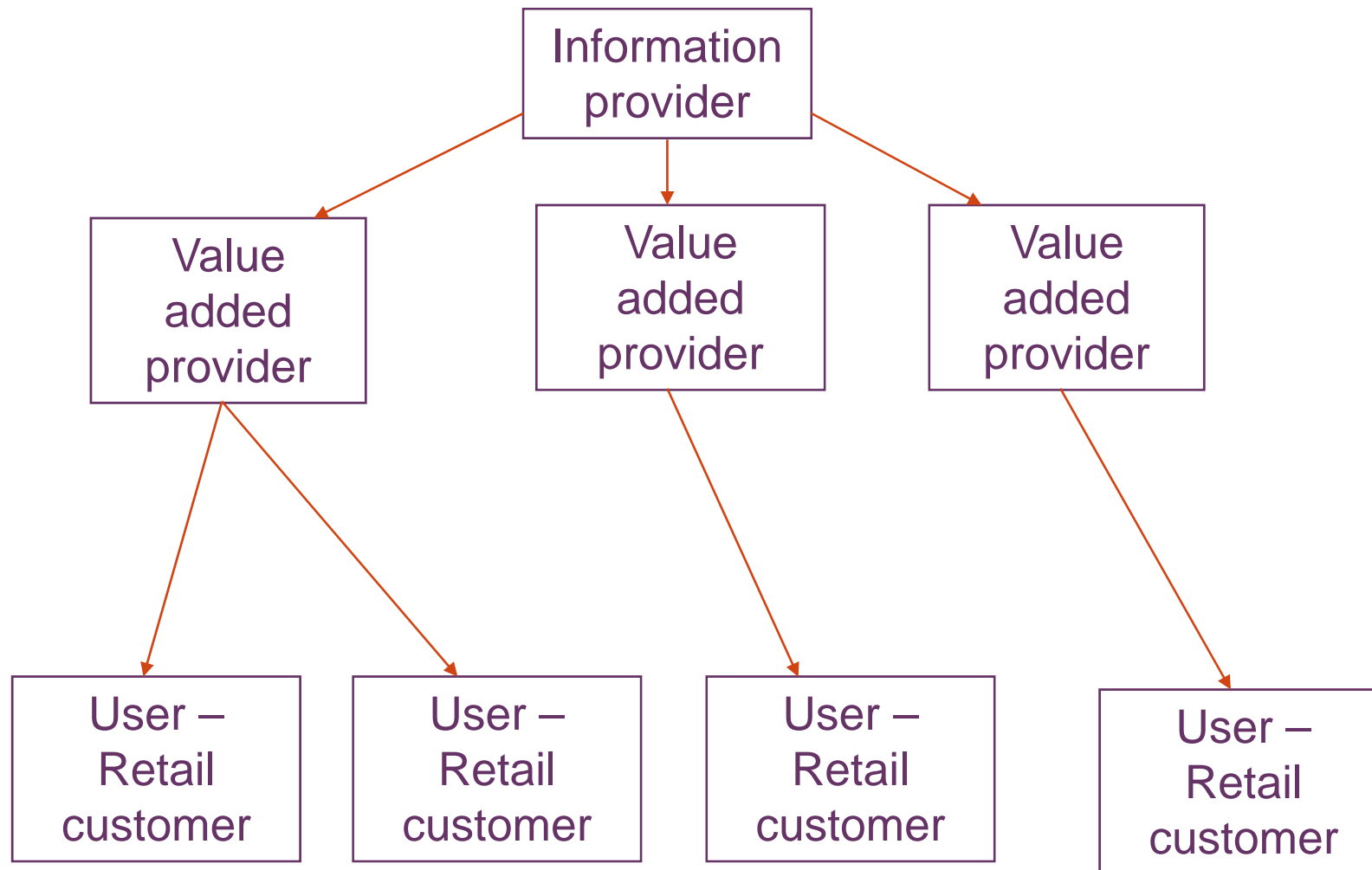
Additional issues of vertical integration

- competitors in the downstream market face a real cost of input in the upstream market of the actual price they pay – this is real money
- at the institutional level the vertically integrated operator faces the actual costs of additional upstream inputs, which is usually €0 (ish), irrespective of the ‘price’ that should be charged
- there may be additional advantages – for example, knowledge of data structure, changes in formatting, timing of additional information etc

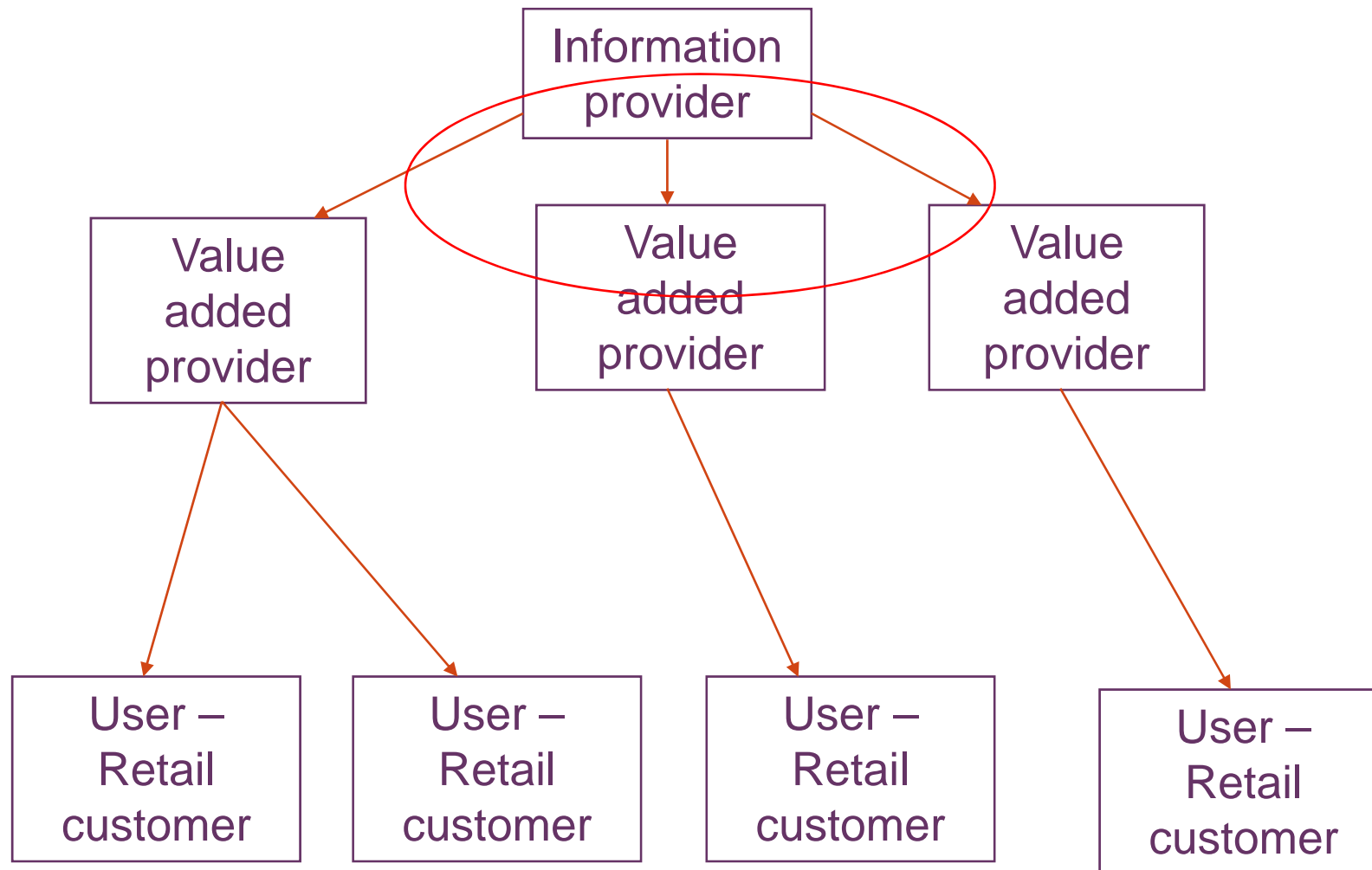
Good (and bad) news

- Good news
 - the problems of vertical integration are well known and understood in private sector markets
 - the problems of low marginal and high average/fixed costs is reasonably well known and reasonably understood
- Bad news
 - vertical integration is one of the most difficult regulatory problems
 - structural separation, Microsoft case
 - low marginal/high fixed costs produces 'efficient' monopoly outcomes to underpin welfare enhancing price discrimination (competition in downstream markets tends to be compromised)
 - this aspect is particularly acute with digital data

Issues – pricing and market structures



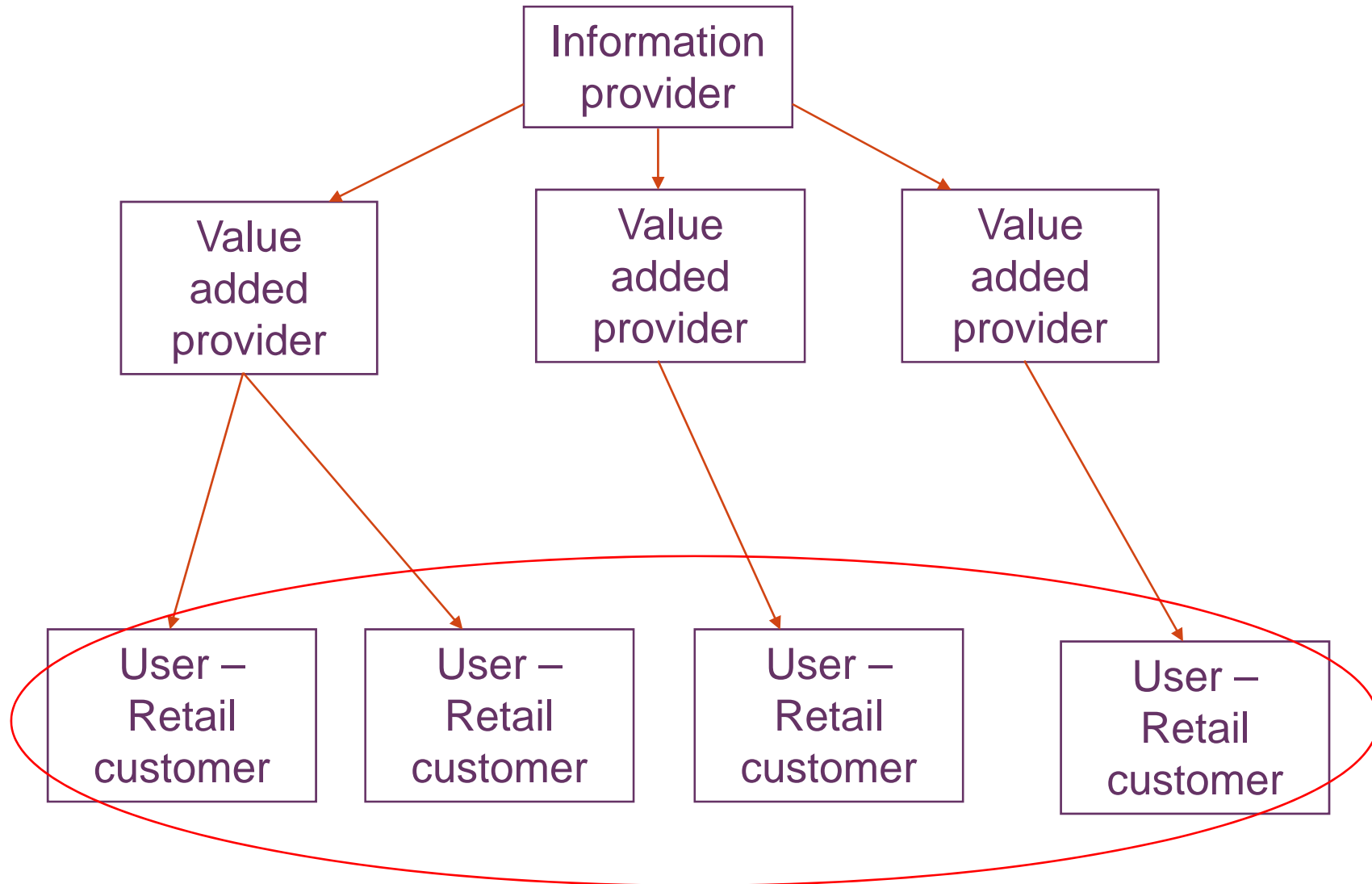
Issues – pricing structures



Price structures

- if price = €0 this is easy
- but if not, what kind of price?
 - single price, multiple re-use
 - encourages monopoly in value added layer
 - licence – set fee per re-use
 - inefficient – does not allow welfare enhancing price discrimination
 - royalty - % of selling price
 - allows (some) price discrimination, but encourages inefficient product splitting

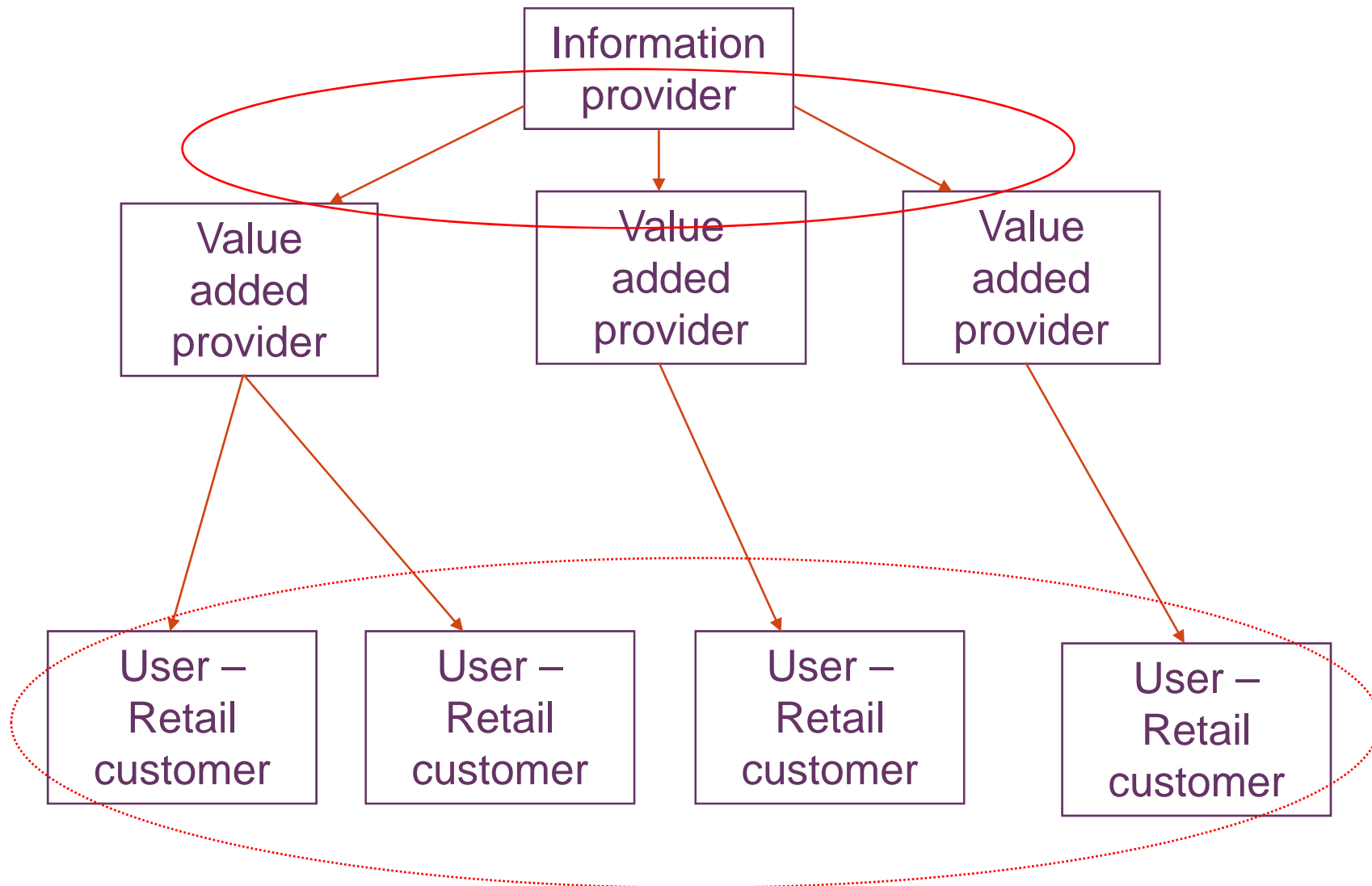
Issues – price discrimination



Price discrimination

- welfare enhancing requires discrimination at the retail level
- between different types of uses
 - in the economic jargon – between *different relevant markets*
 - Ramsey pricing principle
- anti-competitive if the price discrimination is *within* the same relevant market

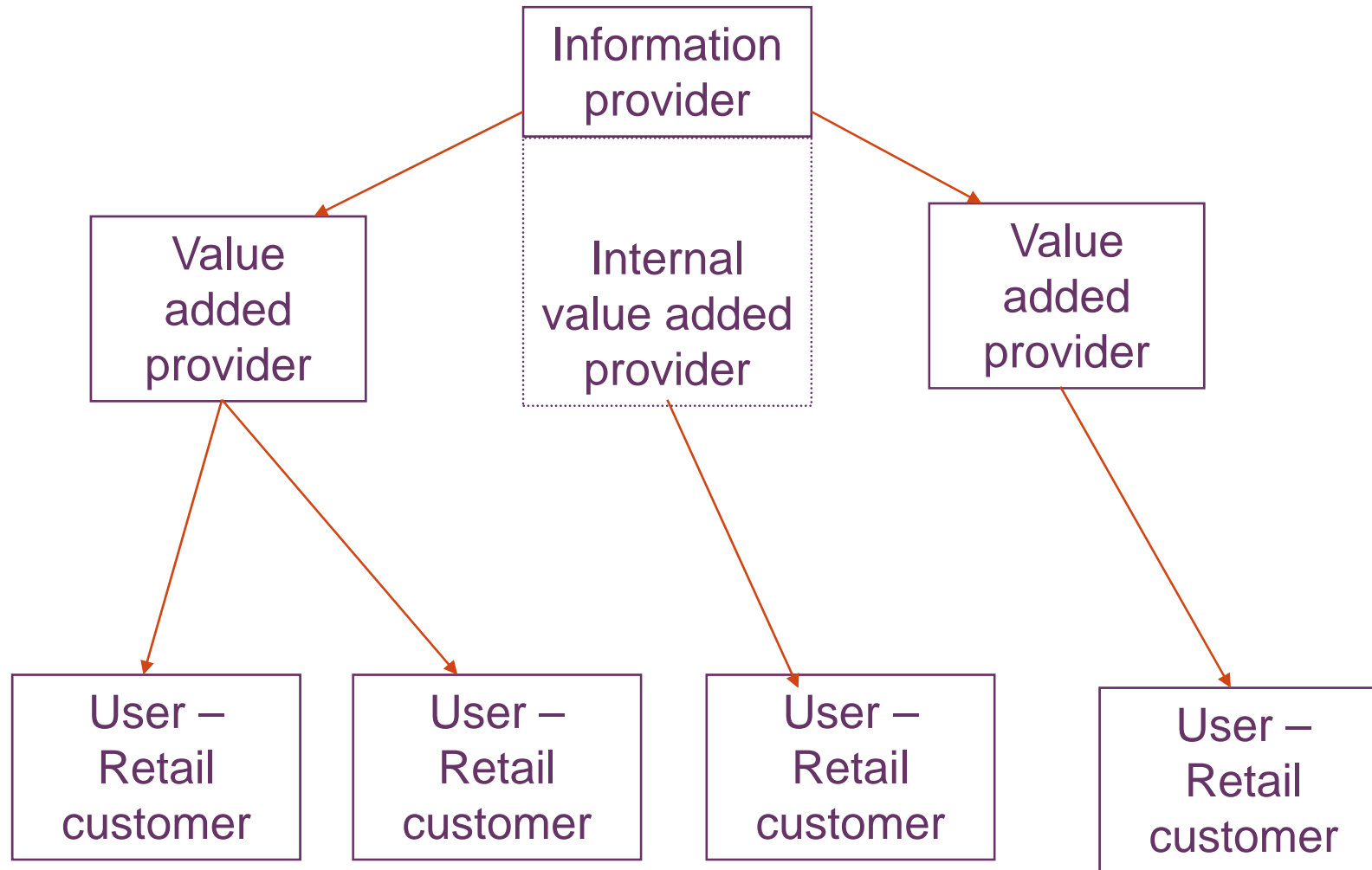
Issues – price discrimination



Price discrimination

- But the price discrimination itself has to take place between the information provider and the value added providers
- difficult, even in the fully separated market structure.
- add vertical integration

Issues – market structures



Issues - vertical integration

- cost is €0 (approximately)
- transfer price is not real
- price discrimination in final product market can be welfare enhancing (good) or anti-competitive (bad)
- how do you know what the imputed *information* price is?
 - accounting separation
 - requirement not to run at a loss (a *no cross subsidy rule*)
 - activity that is in a competitive layer (value added) is subject to *regulatory*, not market, control
- keeps economists employed!

Issues – bundling of non-information product

- particular issue with PSI
 - how reliable is the information?
 - who, if anyone, is liable if it is wrong?
 - does it come with an insurance product (ie liability)
 - can that insurance policy be past on?
- insurance has more problems
 - premium is dependent on a combination of risk of incorrect data and final use, and frequency of use
 - downstream characteristic should influence upstream price (if this is where insurance is provided)
 - external insurance market may fail at all levels

Conclusion

- Commercial markets using PSI create significant economic “problems” in ensuring that:
 - competition is “fair”
 - the market is reasonably efficient
 - the overall production of information is itself efficient
 - part of government may need to behave as if they are private sector
 - other parts, as producing a *public good* output
- Public policy (including political questions like “who pays?”) and competition policy (competition law) both play important roles
- Getting it right produces a significant pay-off for the information industries as well as for the economy as a whole



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