NHH

JOINT PURCHASING OF ENERGY:
IMPLICATIONS FOR ENERGY MARKETS

AN ECONOMIST'S PERSPECTIVE

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My approach

- A view from the outside
  - Not an expert on the gas market
- Discussing the economics of joint purchasing, interpreted as increased buyer power
  - The effect of buyer power vs seller power
  - When should we be concerned?
- Not touching upon competition law
- Not so much about Norway, but more about the functioning of the market (for gas)

Buyer power vs seller power

- Traditionally economists more concerned about seller power than buyer power
  - Seller power, for example price fixing, can lead to higher prices to buyers/consumers
  - Buyer power can imply that input prices are reduced, and passed on to the consumers
- This is also in line with the broad picture when we look at competition law
  - But some discussion recently, ex. about labor market and antitrust in the US

Beneficial buyer power?

- Buyer power can be beneficial for society and consumers
  - A buyer can trigger competition between the sellers, which can lead to lower input prices
- Especially important in markets with high concentration in the upstream market?
  - Buyer power as a countervailing power towards suppliers
  - Joint purchase can further strengthen buyer power

Joint purchase– lower prices?

- Two nation wide TV channels bid jointly for the TV rights in Norway for European championship in soccer until 2028

NRK TV NRK RADIO

Nyheter Sport Kultur Humor Distrikt Mer

11:20:17 Sport Resultater Sendeplan Langlesing Videoklipp

NRK og TV 2 sikret nye rettigheter – skal vise fotball-EM til 2028

ULLEVAAL STADION (NRK): Mandag ble det klart at NRK og TV 2 sammen kjøper rettighetene til fotball-EM for menn i 2024 og 2028. Avtalen ble skrevet under i ettermiddag.

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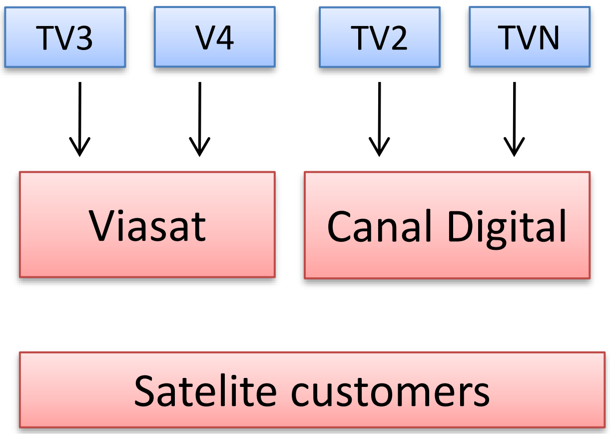
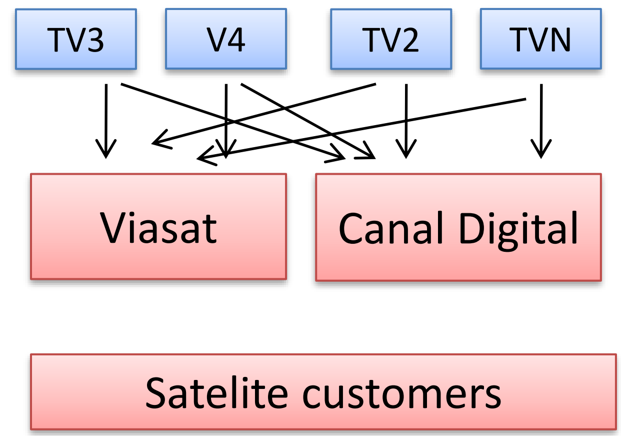
Better content and lower prices?

Until March 2008:



- Exclusive distribution of several TV channels

After March 2008:

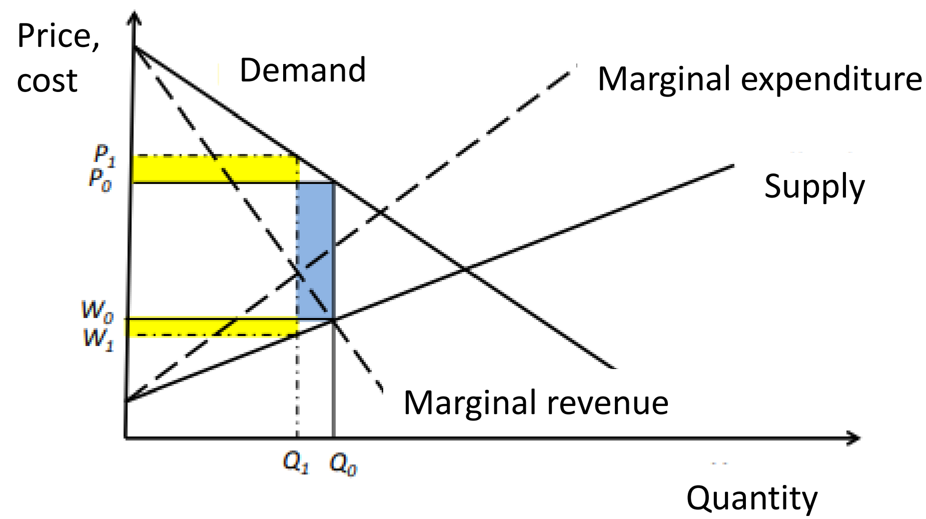


- Agreement between Viasat and CD in the fall of 2007
  - TV2 not exclusive any more
  - Swap of several channels

- Broader and better content to each consumer?
- More similar offer from them, triggering competition?

Harm from joint purchase I - Monopsony

- Restrict input quantity to lower input price
- Lower input quantity leads to lower output
  - Lower input prices
  - Higher output prices
  - Harm to consumers and suppliers
- Ex: Natural resource industry
  - Increasing cost of production
  - Relevant for gas production?

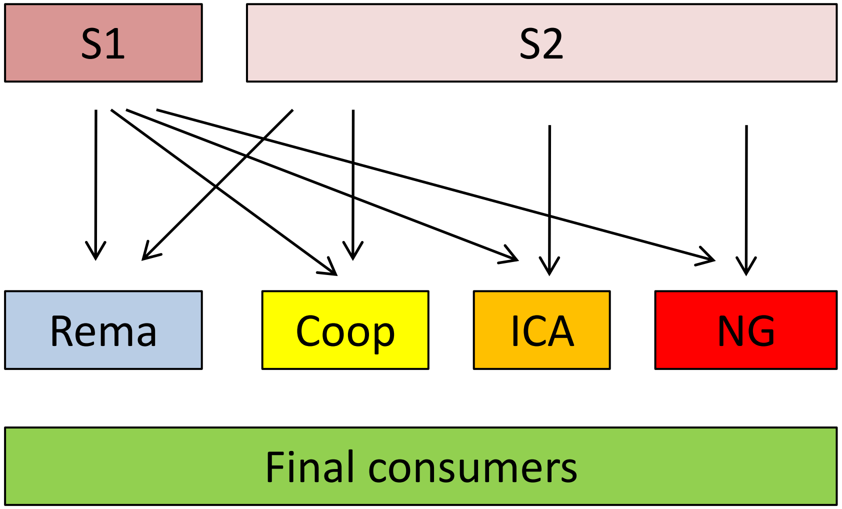


Harm from joint purchase II - Oligopoly

- Buyers negotiates with suppliers, among other things on price
  - Complex contracts between supplier and buyer
- Then buyers sell their product in the same market
- If joint purchase, then it might spill over on the competition in the downstream market
  - Learn about each others input costs
  - Internal pricing system so that they all face higher input prices when they set final prices
  - Then they set higher prices to consumers, even though they jointly purchase at a lower price

Ex.: Joint purchase ICA - Norgesgruppen

- In 2013 four retail chains in Norwegian grocery market
- Also high concentration among suppliers
- OK with countervailing buyer power
  - Lowering input prices
- But then beneficial with a joint purchase?



Ex.: Buyer alliance ICA - Norgesgruppen

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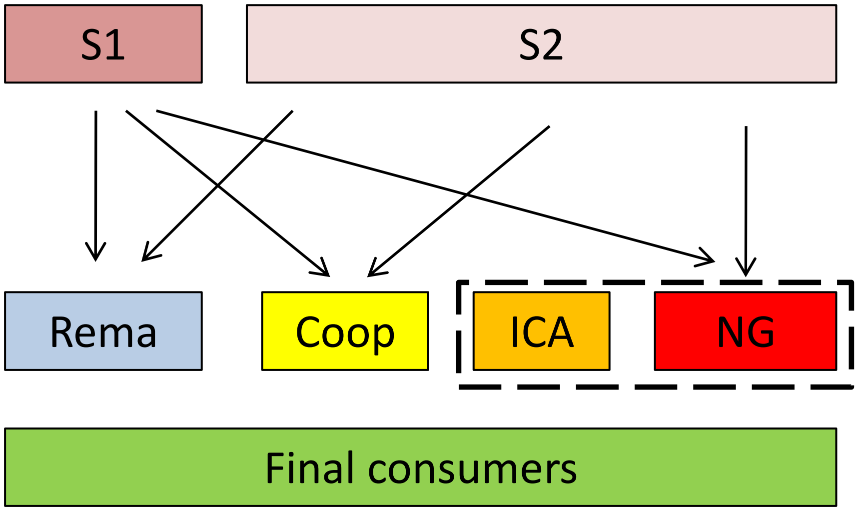
- Also high concentration among suppliers
- OK with countervailing buyer power
  - Lowering input prices
- But then beneficial with a buyer alliance?



- Interim measure by NCA: Banned the joint purchase
  - One theory of harm: Setting high common input prices to the two chains, leading to higher final prices

Joint purchase in gas - beneficial?

- The idea to launch some countervailing buyer power?
  - Few suppliers of gas
  - By joining forces, the buyers will not compete for gas deliveries
  - Then they can ensure lower input prices
- Parallel to joint purchase of f.ex. TV rights?
  - But joint purchase of TV rights did have an effect on prices because they escape a ***win or lose*** fight?
  - In the market for gas, all firms will – at least to some extent – be served

Joint purchase of gas – harmful I?

- If monoposony power, then even worse for gas users?
  - Reduce quantity, to force input prices downwards
  - Can make sense if increasing production costs (which can be true for gas?)
  - But then even lower gas quantities to end users, and final market clearing prices will increase
- But in reality negotiations on input prices, not a monopsony model?

Joint purchase of gas – harmful II?

- If oligopoly and negotiations, risk of spillover to prices for gas users?
  - They negotiate on input prices, and not quantity set by the buyer (as in the monopsony model)
  - If buyers sell in same market, then it can be a spillover to prices for final users (see earlier)
  - It might be lower input prices, but no guarantee that it leads to lower prices to final gas users
- Need for a detailed monitoring system to avoid such a spillover effect?
  - Or simply not feasible to monitor it properly?

Some concluding remarks

- From an economist's perspective, not obvious how joint purchase will affect the market
  - Might lead to lower input prices?
  - Will it despite this lead to higher final prices?
- But is it such that we are on the capacity constraint, small chances for more gas?
  - Cutting input prices will not lead to more gas supply in near or medium term future?
- To clear the market for end users, the price then will still have to be high?