

Getting a fix on price-fixing cartels

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Significance

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BACKGROUND

- The article provides an accessible overview of the possibilities and limitations of using cartel screens to detect illegal cartels. Cartel screens are empirical methods that are used to detect cartels by uncovering the traces they leave in market data, such as prices or market shares.
- In order for cartel screens to reliably detect cartels, it is critical that their specific *identification assumptions* hold true. In this context, identification assumptions refer to assumptions made about market characteristics and how cartels alter the observed market outcome (e.g. prices).

METHODOLOGY

- The article explores the role of identification assumptions based on two recently proposed cartel screens: (i) price variance-based screens, and (ii) structural break cartel screens. The former assume that cartel formation reduces fluctuations in market price *during* the cartel, compared to time periods or markets where no cartel was active. The latter test for substantial changes in the link between market outcomes – such as prices – and the factors that determine them over time.
- For both classes of cartel screens, the article describes the conditions in which cartels can be reliably detected and, furthermore, provides examples of the factors that can induce the screens to fail. Additional discussion is afforded to how researchers can assess whether the applied screens produce reliable evidence of the existence or absence of a cartel.

KEY FINDINGS

- For “suspicious” markets, different cartel screens can be used to increase the robustness and accuracy of the methods and, in turn, enhance the probability of identifying that suspected cartel behaviour is indeed caused by a cartel, and not by other unobserved factors.
- Cartel screens are not meant to – and should not – be used in isolation. Rather, they should be used in combination with other enforcement tools available to a competition authority, such as market investigations and leniency programmes.

POLICY ISSUES

- Used correctly, cartel screens can enhance the deterrent effect of fines on cartel formation.

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ABOUT THE AUTHOR

- **Carsten J. Crede** is a PhD student at the UEA School of Economics and a student member of the Centre for Competition Policy at the University of East Anglia.

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