ROUND TABLE ON ELECTRONIC COMMERCE

-- Note by Japan --

The attached note is submitted by the Japanese Delegation to the Committee on Competition Law and Policy FOR DISCUSSION at its forthcoming meeting on 24-25 October 2000.
COMPETITIVE ISSUES OF THE B2B E-MARKETPLACE

1. Emergence of B2B e-marketplace

Electronic Commerce is one of the fast developing sectors in the Japanese economy, as in other OECD counties. It can be classified into two categories, that of “business to consumer” (B2C) and “business to business” (B2B). And, in Japan, B2B is increasing its potential importance in business activities and will occupy greater part of Electronic Commerce.

B2B is, in itself, not a new idea, and some manufacturers, carmakers for example, have been using computer and networks to share various kinds of information in business activities among the affiliated businesses enhancing efficiency of their sales and production since the 1980s. But in the late 1990s, with the fast spread of the Internet and innovation of information technology, the new system has appeared to realise virtual market, B2B e-marketplace, that enables multiple participants to trade with each other at the same time.

The main difference is that the former is a closed system and only allows “one to one” trade and, on the other hand, the latter is an open system and enables “n to n” trade.

Generally B2B e-marketplace is classified into two categories, a market for purchasing and another for selling. The former enables multiple manufacturers to present their demand, typically raw materials and components, to multiple venders. On the other hand the latter enables multiple venders, not only manufacturers but also whole-sellers and trading companies, to normalise a variety of products making them easy for users to compare and order.

2. Competitive analysis of B2B e-marketplace

Recently more and more Japanese companies have come to appreciate the benefit of the B2B e-marketplace especially for purchasing. Some companies are planning to bring out B2B e-marketplaces by themselves, but more companies are accessing markets abroad.

Generally, purchasing through the B2B e-marketplace (“Net Purchasing”) will enhance the efficiency of the transaction, expanding business opportunities, saving and reducing various kinds of transaction costs and could lower the price of the outputs making the market more competitive. However, realisation of these merits depends wholly on how it is organised and operated.

The Following are some of the issues in relation to the competitive effects of the B2B e-marketplace, especially that of purchasing.

1) Global Market

In principle, the B2B e-marketplace is global and anyone in the world can participate in any market in the world. This means that many large manufacturers in the world, including Japanese, can participate easily in one market which may bring about a significant effect on competition in related markets.
9. But in analysing its effect on competition, we would have to face the difficult problem of identifying the specific competition and the markets in which the B2B e-marketplace could effect.

(2) Joint Purchasing

10. Generally, using the Net Purchasing, multiple participants can purchase a specific product from a specific supplier at the same time. This means that the B2B e-marketplace can provide good opportunities for participants to practice joint purchasing quite easily.

11. In some cases, such joint purchasing is expected to be competitive, because it is an effective way to make scale economies in the purchasing market which could decrease purchasing prices. On the other hand, it could easily turn and be anticompetitive, when the total volume of the buyers’ purchasing becomes so large that it creates a monopoly power in the purchasing market ("Monopoly Power"). In this case, the decrease in the purchasing price is not the result of enhanced efficiency but the result of intended restriction of their demand, generally their demand for input, below what would have prevailed in the absence of the-marketplace. Generally, restriction of demand for input is achieved by restricting output with the increase of output price.

12. This means that, in the Monopoly Power case, the benefits of reducing the input price cannot spread to consumers.

13. Additionally, when the total joint share of the net purchasers in the downstream market is relatively high, and a large part of the input for each purchaser comes from the same-marketplace, it tends to make each purchaser co-operative to concert their prices in the downstream market.

(3) Information Sharing

14. One of the prominent benefits of the B2B e-marketplace is its ability to enable the participants to share various kinds of information in their business activities.

15. In the case of Net Purchasing, the shared information concerns trade among the participants in the market, such as a price, quantity and other important the information on competition, which the market operator gathers and processes to present to each participant.

16. If the market had the structure to give participants access and share information that the operator has, the market could be harmful to competition because the competitive participants in the market that share information could use it to restrict competition among them.

17. To eradicate this fear, B2B e-marketplace should have the specific mechanism to prevent information sharing among competitive participants.

(4) Obligations to use the market

18. The network effect is a prominent feature of the B2B e-marketplaces because their value to the participants critically depends on expectations on how many members the market has or will have in the near future. The network effect sometimes makes specific markets develop fast enough to crowd out other competitive markets and become dominant. But this effect does not necessarily exclude the potential co-
existence of competitive markets, if the interoperability among the market is guaranteed and the market is not exclusive.

19. From this point of view, if the market imposes its participant’s duties, such as a minimum level or percentage of use, or any other requirements affecting the participants’ outside use, that imposition could create a complex problem on competition.

20. In some cases the imposition of this kind will be necessary to produce competitive alternatives to a dominant market and facilitate competition among them.

21. On the other hand, if the market imposes such duties after it has become dominant they will change to an effective way to exclude potentially competitive alternatives and maintain its dominant position.

(5) Exclusion from a market

22. Exclusion from the market also presents a complex problem for competition. In some cases, exclusion could be indispensable to enhance efficient trade in the market. For example, there might be the case that such a limit could be necessary to achieve security of trade or to prevent obstructive behaviours by competitive outsiders.

23. On the other hand when, with the network effect, the specific market has become dominant and essential for participants to continue their activities in related markets such arbitrary exclusion of the competitors by participants from the market could easily be used to restrict competition in related markets.