Issues of Cartelisation

What is the issue?

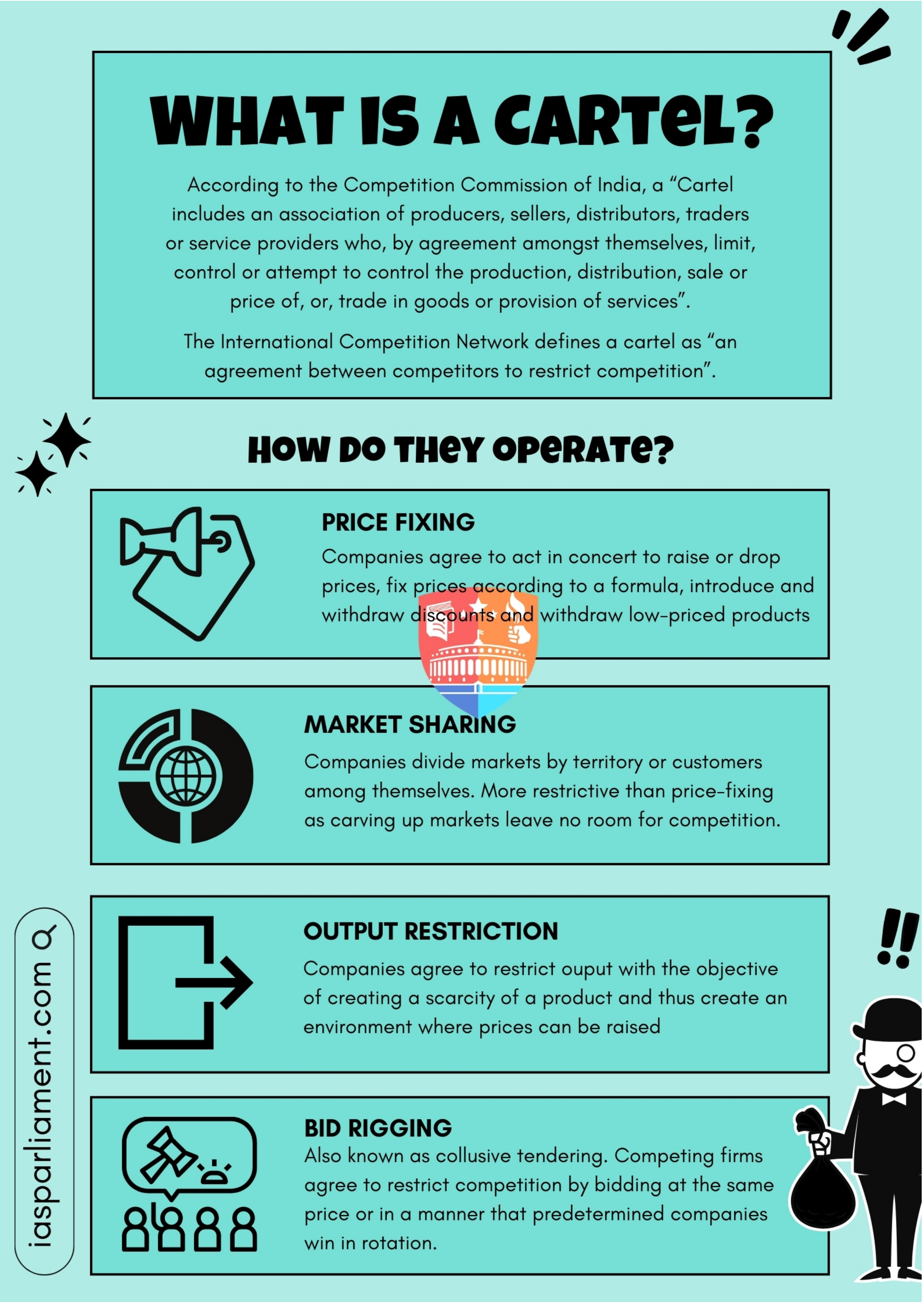
The Competition Commission of India has slapped a penalty of Rs.873 crore on three beer companies as well as All-India Brewers Association and 11 individuals for colluding to fix beer prices for between 2009 and 2018.

What is a cartel?

- According to CCI, a "Cartel includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services".
- The International Competition Network defines a cartel as "an agreement between competitors to restrict competition".
- The agreement that forms a cartel need not be formal or written.
- Cartels are mostly secret conspiracies.

How do cartels work?

- According to ICN, four categories of conduct are commonly identified across jurisdictions.
    1. price-fixing
    2. output restrictions
    3. market allocation
    4. bid-rigging
- The recent issue of brewing companies is an example of price fixing where the competitors colluded together to fix the prices.



How do cartels hurt?

- Cartel raises the price above the competitive level and reduces output.
- Cartel either force some consumers out of the market by making the commodity more scarce or by earning profits that free competition would

not have allowed.
- A cartel shelters its members from full exposure to market forces, reducing pressures on them to control costs.
- It undermines the overall economic efficiency and innovations.

How to stop the spread of cartelization?

- Cartels are not easy to detect and identify.
- Providing a strong deterrence to the cartels that are found guilty in the form of a monetary penalty that exceeding the amount gained by the cartel can stop its spread although it is difficult to ascertain the profits gained by them.

Source: The Indian Express

Quickfacts

Competition Commission of India (CCI)

- CCI is India's competition regulator.
- It has been estlablished under The Competition Act, 2002.
- It was subsequently amended by the Competition (Amendment) Act, 2007.
- CCI consists of a Chairperson and 6 Members appointed by the Central Government.
- It is the duty of the Commission to
    1. eliminate practices having adverse effect on competition
    2. promote and sustain competition
    3. protect the interests of consumers
    4. ensure freedom of trade in the markets of India