Discussion of “ArcelorMittal/Ilva ”

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Overview

- Fascinating Case
- Multiple Aspects involve almost anything economics has to offer:
  - Unilateral and Coordinated Effects
  - Vertical relations: Integrated vs non-integrated producers, independent SSCs, merchants
  - A potentially failing firm (Ilva)
  - Imports as a constraint on prices
    - Market definition
    - Trade policy
  - Parties' products are both complements and substitutes
  - Given the multiple dimensions, unlikely to become a textbook case.
  - Limited scope for quantitative (counterfactual) analysis

I would love to know more than this

Table 20 – Seaborne transport costs to Southern Europe (Genoa) and to Northern Europe (Antwerp) from different non-EEA exporting countries

Country of Origin	Seaborne transport costs to reach Southern Europe (Genoa, Italy) (EUR/t) (A)	Seaborne transport costs to reach Northern Europe (Antwerp, Belgium) (EUR/t) (B)	Difference in transport costs to reach Southern and Northern Europe (A-B)
[…]	[…]	[…]	[…]
[…]	[…]	[…]	[…]
[…]	[…]	[…]	[…]
[…]	[…]	[…]	[…]
[…]	[…]	[…]	[…]

Source: Notifying Party Response to RFI 26, Annex 7

- Perhaps this case is too recent to have an informed discussion?

Comments: Counterfactual

- The 'right' counterfactual seems infeasible
- Ideally we would compute counterfactual equilibrium with estimates of demand and cost functions
- Simple arbitrage does not work:
  - Price differences cannot be explained by transport costs
- Suggests fixed costs of serving specific markets
  - Customization, distribution etc.

Comments: Counterfactual (cont'd)

- To perform a counterfactual we would have to specify several things:
  - Elasticity of import supply (this has been attempted to a certain extent)
  - Model the vertical relationships
    - Information, bargaining protocols etc.
  - Will Ilva survive and if so, how (perhaps endogenous?)
  - Capacity adjustements
- Even if we could do all this, well at most get a range of fixed costs, and hence a range of possible outcomes (not speaking of statistical uncertainty).
- All this justifies a more qualitative analysis based on descriptive statistics on past equilibrium outcomes

Comments: Imports

- 'Imports are volatile'
  - What we observe are equilibrium outcomes
  - Could very well be that (import) supply is stable and it is domestic (residual) demand that moves around
- 'Importers generally pursue an opportunistic strategy'
  - Not clear who is behaving in an opportunistic manner
  - Customers sound like 'difficult customers', e.g.: *"In terms of delivery time, financial surface necessary to support the purchase and customized delivery, only a small amount of purchases could be substituted."*
  - There is probably opportunism on both sides given specific needs.

Other Comments:

- Priority Rule
  - Consider recent work by Nocke and Whinston (2010, 2013) on the optimal dynamic policy / merger choice
- Complements versus substitutes
  - Are the products considered really complements in the sense that prices may end up being lower after the merger
- Remedies: Are low transport costs enough
  - *"Moreover, while Galati and Ostrava are not located in Southern Europe, [......]low transport costs will allow the purchaser [....] to have the ability and incentive to supply HR from the Galati and Ostrava plants into Southern Europe, [.....]."*