No. Ct-88/4

THE COMPETITION TRIBUNAL

IN THE MATTER OF an application by the Director of Investigation and Research under Section 75 of the *Competition Act*, RSC 1985, c. C-34, as amended;

AND IN THE MATTER OF a refusal to supply automotive parts for export by Chrysler Canada Ltd. to Richard Brunet;

BETWEEN:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Applicant

\- and -

CHRYSLER CANADA LTD.

Respondent

AFFIDAVIT OF RALPH A. WINTER

I, RALPH A. WINTER, of the City of Toronto, in the Province of Ontario, make oath and say as follows:

1. I am a Professor of Economics at the University of Toronto. I was retained by the counsel for Chrysler Canada Ltd. to review the report prepared by Richard Schwindt dated June 1, 1989, and to analyze the economic issues raised in this matter. Attached hereto and marked as Exhibit "A" to this my Affidavit is a true copy of my report setting out this analysis.

2. The contents of Exhibit "A", and the findings expressed therein, are true to the best of my knowledge, information and belief.

3. I make this Affidavit pursuant to Rule 42(1) of the Competition Tribunal Rules.

SWORN BEFORE ME at the City of TORONTO, in the Province of ONT., this 20 day of JUNE, 1989.)
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)

A Commissioner, etc.

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Report prepared by

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for

Perley - Robertson, Panet, Hill & McDougall
Barristers & Solicitors

Re: Application by the Director of Investigation and Research Under Section 75 of the Competition Act, RSC 1985, c.C-34, as Amended and in the Matter of a Refusal to Supply Automotive Parts for Export by Chrysler Canada Ltd. to Richard Brunet

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MANDATE

1. I have been requested by Perley-Robertson, Panet, Hill & McDougall to offer a report on the economic issues involved in the application by the Director of Investigation and Research under Section 75 of the Competition Act in the Matter of a Refusal to Supply Automotive Parts for Export by Chrysler Canada Ltd. to Richard Brunet. My report is prepared in rebuttal to the statement by Professor Richard Schwindt which was filed by the Director in support of the application.

2. My report and opinion are based on my professional training as an economist, my experience in the economic analysis of markets and competition policy, and my review of the documents produced in this litigation. Evidence of my professional qualifications and expertise is contained in my curriculum vitae, which is appended to this report.

I. INTRODUCTION

1. This report begins with a summary of my understanding of the essential facts of the case, including a chronology of the events leading to the Director's application. Section III assesses Professor Schwindt's report on the case. Section IV analyses the set of economic issues that the case raises, which is broader than the set of questions addressed by Professor Schwindt. The analysis is necessary to develop a context for the narrow set of conclusions drawn by Professor Schwindt. Section V draws policy implications from the analysis, and Section VI offers some conclusions.

II. ESSENTIAL FACTS

1. Chrysler Corporation is a multinational enterprise that produces motor vehicles and motor vehicle parts. Chrysler Canada Ltd. ("Chrysler Canada") is a wholly owned subsidiary of Chrysler Motor Corporation, which in turn is wholly owned by Chrysler Corporation. In this report, "Chrysler U.S." refers to Chrysler Motor Corp. and Chrysler Corp. "Chrysler" refers to the entire multinational enterprise, including the Canadian subsidiary.

2. Chrysler produces motor vehicles and parts for export out of North America as well as for sale within North America. The parts for export are sold to independent trading houses ("distributors") in North America, who then sell to accounts in other countries. Chrysler also sells parts directly to Chrysler Dealers.

3. Automotive parts for use in a particular brand of automobile can be categorized in a number of ways. For the purposes of economic analysis, it is most useful to categorize them into two groups: a) those parts which are produced for the manufacturer of the automobile, Chrysler in this case, for use only on its automobiles; these parts are labelled "captive" parts, and b) parts which are produced by all of the major manufacturers and other specialized producers as well. These are called "competitive" parts. Competitive parts sold by various producers are close substitutes. An example of a captive automobile part is the fender or door of a

particular model; competitive parts are exemplified by fan belts, spark plugs, headlights, etc.

4. R. Brunet Co. ("Brunet") is in the business of exporting autoparts out of North America. A major proportion of his sales are captive parts for Chrysler automobiles. The remaining sales are sales of competitive parts.

5. In 1980, as part of its restructuring, Chrysler adopted the policy that its sales-for-export of parts be centralized in the parent company rather than offered through both Chrysler U.S. and Chrysler Canada. Accordingly, Chrysler Canada agreed not to sell to distributors for export out of North America.

6. One exception to this was that Brunet, which had been purchasing parts from Chrysler Canada, was allowed to continue purchasing from Chrysler Canada.

7. During the period 1980 to 1986, when Brunet was allowed to source from the Canadian subsidiary of Chrysler as well as from the parent company, it sourced a variety of parts from each. In that the distributors competing with Brunet (U.S. distributors exporting to overseas regions) were required to buy only from Chrysler U.S., Brunet paid lower prices for many products than did these competing distributors.

8. In 1986 Chrysler decided to implement fully its policy of centralizing sales for exported parts through the parent company rather than offering these sales through both Chrysler U.S. and Chrysler Canada. Accordingly, Chrysler stopped supplying Brunet through its Canadian subsidiary and instructed Brunet to source directly from the parent company, Chrysler U.S.

9. The trade terms available to Brunet at Chrysler U.S. were the same as the terms faced by competing distributors.

10. After October 1986, Brunet increased its purchases from Chrysler U.S. but also found it advantageous to purchase many parts from Chrysler dealers in Canada rather source entirely with the U.S. parent.

11. The Director of Investigation and Research of the Bureau of Competition filed this application with the Competition Tribunal.

III. ASSESSMENT OF PROFESSOR SCHWINDT'S REPORT

1. Professor Schwindt analyses the Canadian market for Chrysler motor vehicle parts for export, in relation to the Director's application in this case. He arrives at three propositions or conclusions. First, he concludes that the market defined by Chrysler autoparts purchased by Brunet from Chrysler Canada for export overseas is the relevant market for analyzing this case. This is an extraordinarily narrow market definition, limiting the scope of the market to a single seller and a single buyer. Second, in discussing aftermarket parts (essentially a subset of what I have labelled the competitive parts sector), Schwindt concludes that Chrysler brand parts have no close substitutes and therefore constitute a market. Again, his reasoning pares the market down to a single seller. Finally, Schwindt argues that the specificity of Brunet's assets to Chrysler Canada and the preference of Brunet for dealing with Chrysler Canada imply that Chrysler Canada constitutes the only seller in the relevant market. I assess each of these conclusions in turn.

Geographical Market Definition

2. An important economic issue in this case is the definition of the relevant market. The definition of the market includes the specification of which products should be included as well which geographical regions should be included. The concept of the "relevant" market depends, of course, on the issue at hand. A narrowly defined market may be relevant for one issue, a broadly defined market relevant for another. Professor Schwindt does not set out clearly the issue which must guide the definition of the market. In my view there are two alternative issues which could guide the definition of the market in an economic analysis of this case:

a. The first is the concept of the "market" that is referred to in subsection 1 a) of Section 75 of the Competition Act. This subsection of the Act reads as follows:

> " a person is substantially affected in his business or is precluded from carrying on business due to his inability to obtain adequate supplies of a product anywhere in a market on the usual trade terms."

An interpretation of this subsection requires a market definition. The interpretation may require that the market contain as a product or products, Chrysler autoparts sold in Canada. The market definition question for this issue is, "What is the market that contains as one set of products Chrysler autoparts sold in Canada?"

b. The second question that may guide the definition of the market is whether the restraint at issue, Chrysler's decision to supply Brunet through its parent company rather than through its Canadian subsidiary, was the consequence of market power on the part of Chrysler, or a reasonable business decision unrelated to the exploitation of market power.

3. Professor Schwindt's analysis of the market addresses at best only the first of these two issues. It is beyond my mandate to comment on the likelihood or reasonableness of the legal interpretation that the market relevant for subsection 1 a) contains Chrysler autoparts. I can, however, take as given that the product is Chrysler autoparts, and assess Professor Schwindt's definition of the *geographical* market.

4. As Professor Schwindt notes, the geographical boundary in the definition of the relevant market is determined by the criteria of substitutability in demand and supply; if two geographically separated firms are close substitutes to buyers in a market, then the market encompasses both firms. The question in our context is whether for autoparts, Chrysler U.S. is in the same geographical market as Chrysler Canada.

5. The usual context in which the definition of a geographical market arises is to determine the concentration of sellers or the potential for market power in the market[1]. Professors Landes and

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The *concentration* of sellers in a market describes the extent to which a small number of firms hold a large share of the market. *Market power* refers to the ability of a firm profitably to raise price above the competitive price in a market. See *infra*, Section III, or F.M. Sherer, Industrial Market Structure and

Posner state that

> "if a distant seller has some sales in a local market, *all* its sales, wherever made, should be considered a part of that local market for purposes of computing the market share of a local seller. This is because the distant seller has proved its ability to sell in the market and could increase its sales there..."[2]

In our context, defining the geographical market for Chrysler autoparts, our goal is not to assess market concentration. Chrysler, including its Canadian subsidiary, is the single seller in this narrowly defined product market. The relevance of the geographical market definition for Subsection 1 a) of Section 75 of the Competition Act is instead in determining whether Brunet could obtain adequate supplies of Chrysler products anywhere in the "market".

6. While our context is different than that of Landes and Posner, the logic of their argument applies. The fact that Brunet was and is able to source a substantial number of autoparts from Chrysler U.S. establishes that parts sourced from Chrysler U.S. should be considered part of the same geographical market as parts sourced from Chrysler Canada. Brunet sourced many parts from Chrysler U.S. even during the period up to 1986 when he was free to source from either Chrysler U.S. or Chrysler Canada. This demonstrates Brunet's ability to buy from Chrysler U.S. and compete successfully with other buyers who were themselves constrained to source from Chrysler U.S.

7. Brunet's ability to buy from other market sources other than Chrysler Canada, specifically from Chrysler U.S. and Canadian Dealers of Chrysler products, is further demonstrated by the strong performance of the Brunet company since it was restricted against sourcing from Chrysler Canada in October 1986. Both gross margin and net income for Brunet, which had decreased in the period 1980

~~Economic Performance, 2nd Ed.,~~ 1979 at p.56; and H. Hovenkamp, Economics and Federal Antitrust Law, West Publishing Co., 1985 at p.55.

[2] William M. Landes and Richard A. Posner, " Market Power in Antitrust Cases", Harvard Law Review, Vol 94, No. 5 (March 1981), at p. 963

to 1985, increased in the period from 1986 to 1988[3].

8. Professor Schwindt arrives at a geographical market definition for Chrysler autoparts that is so narrow that it includes only Brunet and Chrysler Canada. The path to this definition is an argument that while the products sourced from Chrysler Canada and Chrysler U.S. were physically identical in general, the trade terms set by Chrysler U.S. were inferior (p.6-7). Schwindt concludes from a delineation of eight items which lead Brunet to prefer sourcing products from Chrysler Canada rather than Chrysler U.S., that the relevant geographical market in this case is Canada.

9. Products that are physically identical, and are perfectly substitutable in their end uses are properly regarded as in the same market unless geographical distance and directly related costs preclude their substitutability. Almost all of the items that Professor Schwindt lists, such as higher handling costs of U.S. sourced product, less price protection, less accommodation of timing requests, a stricter cancellation policy, and the unilateral substitution of technically equivalent parts, are equivalent to a higher cost of purchasing from Chrysler U.S., or a higher price paid to Chrysler U.S. The physical products from the two sources were identical; from the buyer's point of view all differences in terms of trade are equivalent to differences in price.

10. The prices paid by Brunet to Chrysler U.S. and the trade terms available to Brunet from Chrysler U.S., were the same terms faced by every other distributor of Chrysler parts for export from North America (*supra*,Section II, paragraph 9). If a buyer of a particular article can obtain perfectly substitutable products at a modest or moderate price or cost increase, which price increase puts the buyer on an equal footing with other buyers of the product, then the substitute products should properly be included in the same market definition. The perfect substitutability of the parts from Chrysler U.S. and Chrysler Canada fulfills the essential criterion for inclusion of products in the same market.

11. Professor Schwindt offers no evidence that the overall cost differences between sourcing from Chrysler U.S. and sourcing from Chrysler Canada were substantial or that they would render Brunet

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[3] Report prepared by Arthur Andersen & Co., Chartered Accountants, for Perley-Robertson, Panet, Hill & McDougall

unable to compete with other distributors. Brunet placed some service parts orders, as well as some order through "Interparts", a programme offered for bulk non-packaged orders, before 1986 with Chrysler U.S. This shows that the cost differences between Chrysler Canada and Chrysler U.S. parts were not so great as to make sourcing from Chrysler U.S. uneconomical. While most of the products sourced by Brunet in this period were through "Interparts", the fact remains that some portion of the orders were for the standard packaged parts. By the criterion of Landes and Posner (*infra*, paragraph 5), Chrysler U.S. should be considered in the same market as Chrysler Canada.

Product Market Definition for Aftermarket Parts

12. An additional conclusion that Professor Schwindt reaches is related to the issue of which products to include in the market definition, as opposed to which geographical area to include. The distinction between captive parts and competitive parts is important here. (Professor Schwindt uses the terminology of aftermarket parts, which are a subset of competitive, or non-captive, parts.) Professor Schwindt concludes that Chrysler brand aftermarket parts do not have close substitutes.

13. On the bottom of p.4 of his report, Schwindt argues that on the one hand, "from the perspective of an end user of parts" the market for aftermarket parts is not controlled by any vehicle manufacturer, which I take to mean that this market is unconcentrated; and on the other hand, that "from the perspective of Brunet, Chrysler .. aftermarket parts have no close substitutes" (p.5). This is incorrect. The derived demand of Brunet for Chrysler autoparts cannot be characterized by very low cross price elasticities ("no close substitutes") if the demand from which it is derived exhibits high cross elasticities. Expressed more simply, if different brands of after-market parts are close substitutes for end-users, then they are in the same market.

14. The fact that Brunet's customers demand "genuine" Chrysler aftermarket parts, does not establish that there are no close substitutes. This observation simply implies that at the current market prices, Chrysler parts are preferred by many buyers. That is, Chrysler is meeting the market price and quality. The substitutability of products refers to the cross-elasticity of demand,

i.e. the percentage *change* in demand for one product when the price of another product increases by one percent. One cannot infer the lack of substitution by observing the demands at current prices. The observation that many buyers prefer Chrysler parts at current prices does not imply that Chrysler could profitably raise prices above the competitive price level (adjusted for quality), that is, this observation does not imply market power in aftermarket parts.

15. The lack of data on demand at a variety of prices means that analysts generally have to resort to indirect tests such as the substitutability in end-use in defining relevant markets; aftermarket parts of various brands are close substitutes in use and are therefore close substitutes in demand. The aftermarket parts produced by Chrysler cannot be considered as a relevant market. The market for aftermarket parts includes the parts produced by other manufacturers.

16. If one is restricted to considering the market definition as containing Chrysler autoparts, then one could possibly define Chrysler *captive* autoparts as a market. But in the context of the market for aftermarket parts, such a narrow definition cannot be justified. Many manufacturers, including the major automobile manufacturers, produce substitutable aftermarket parts for Chrysler cars.

17. Finally, as a point of fact, aftermarket parts are produced not only by the three major North American motor vehicle manufacturers as Schwindt notes on the top of p. 4 of his report, but by many small specialized companies as well.

The Specificity of Brunet's Assets to Chrysler Canada

18. Professor Schwindt argues that Brunet had invested in assets which were dedicated or specific to Chrysler Canada (p.5). Supplier-specificity of assets can be an important dimension of market definition because it limits a buyers ability to switch to alternative suppliers, and may lead to a narrower market definition. The alleged specific assets included "a heretofore non-existent offshore cliental (*sic*)" and "knowledge of demand conditions". Neither of these assets is specific to Chrysler Canada as opposed to Chrysler U.S. as well; and the main issue in the definition of the

market for Chrysler autoparts in this case is whether Chrysler U.S. sourced parts are close substitutes for Chrysler Canada sourced parts. In sourcing more product from Chrysler U.S. after 1986, Brunet was able to retain his clientele and goodwill among offshore dealers, undoubtedly among his most important assets. That is, the *lack* of specificity of Brunet's assets to Chrysler Canada, is in my view an important reason that Brunet competed so successfully in the overseas market for autoparts during that period. The specificity of assets to Chrysler Canada is in my view not substantial enough to exclude Chrysler U.S. from the definition of the relevant market.

The Limited Scope of Professor Schwindt's Report

19. In my view, the chief limitation of Professor Schwindt's report is its failure to address the principal economic issues raised by the Director's application, namely:

a. Is the Chrysler Canada's "refusal to supply" Brunet anti-competitive, that is, a consequence of market power on Chrysler's part, or does it represent a reasonable and efficient business practice by a firm competing without dominance in the relevant market?

b. What would be the economic consequences for the autoparts market of prohibiting Chrysler's "refusal to supply" in this case?

20. An analysis of the market for autoparts, as it relates to the Director's application, is simply incomplete without a response to these questions. For example, on the specific issue of the relevant market definition, Professor Schwindt's narrow approach leads to conclusion that Chrysler is a monopolist in the "relevant market", because the relevant market is defined so narrowly that it includes only one buyer and one seller. A policymaker accepting this market definition might well draw conclusions about the two issues listed in the previous paragraph - *even though these two issues did not direct Professor Schwindt's search for the relevant market definition in the first instance.*

IV. AN ECONOMIC ANALYSIS OF THE CASE

Introduction

1. In this section of my report, I offer a more complete analysis of the Director's application and the economic issues set out in paragraph 18 of the previous section. This analysis is, in my view, a necessary part of a rebuttal to Professor Schwindt's report in that the narrowness of his approach to the market definition question cannot be appreciated without it. I divide my analysis into three subsections, which address in turn the questions:

A. What is the economic nature of the restraint imposed by Chrysler on Brunet?

B. Can this restraint be explained as a consequence of the absence of competition in the relevant market in this case? ; and, a related question, What is the relevant market definition in assessing the extent of Chrysler's market power?

C. Can the restraint be explained as a reaction by a firm in a competitive market to changing market or economic conditions?

The analysis in this section is "positive" in that it seeks to explain an economic practice; "normative" or prescriptive economic analysis is left for Section V.

A. The Economic Nature of the Restraint

1. The starting point in an economic interpretation of the facts in this case, is an examination of the contractual restraint at issue - the restraint imposed on Brunet that it source from Chrysler U.S. rather than from Chrysler Canada. Is this restraint a "refusal to supply" or simply an increase in the prices that Chrysler charged Brunet?

2. From an economic point of view, Chrysler is a single enterprise with the common objective of maximizing the wealth of Chrysler's shareholders, notwithstanding Chrysler Canada's status as a legal entity. An economic organization with a single set of owners constitutes a single firm. The prices charged by both

Chrysler U.S. and the subsidiary Chrysler Canada and the restrictions set by these two legal entities are the prices and restrictions of a single economic unit, engaged in the activity of manufacturing and selling Chrysler vehicles and autoparts.

3. In deciding in October of 1986 to restrict Brunet to buying from the parent Chrysler U.S., rather than allowing Brunet to continue sourcing from both the Canadian subsidiary and the U.S. parent, Chrysler in effect was imposing a price increase on Brunet. Chrysler, the multinational enterprise, did not refuse to supply Brunet but instead raised the average price that Brunet had to pay for its parts by requiring that Brunet pay U.S. dollar prices charged by the parent, as all other distributors had to. From an economic perspective, the case is not about the refusal of a firm, Chrysler Canada, to supply Brunet. Chrysler Canada is not a firm with an objective distinct from Chrysler Corporation. The case is one of a manufacturing enterprise raising its prices to a distributor.

4. Raising the price to a buyer does not, in any economically meaningful sense, constitute refusal to deal when the price increase is small enough to allow the dealer to remain in business, and indeed to earn a substantial increase in net operating income[4]. If prices had been raised by Chrysler to an extreme level that was unjustified by cost increases or efficiency purposes *and* that was higher than other distributors paid, then it would be tantamount to refusal to supply. (Raising the price of spark plugs to a thousand dollars would have been a refusal to supply.) But neither of these conditions was fulfilled in this case. The increase in price to Brunet did not constitute refusal to supply in the economic meaning of that restriction.

5. The incident at issue, therefore, is an increase in price by Chrysler to Brunet. All of the other dimensions in which Brunet allegedly found the U.S. sourcing inferior to sourcing from Chrysler Canada can be understood simply as additional increases in price, or cost incurred by Brunet, for the same physical products.

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[4] Brunet Company's total net income increased steadily from 22,821 in fiscal year 1985, to 50,307 in fiscal year 1988 (Report Prepared by Arthur Andersen & Co. for this case, at p.11).

B. Market Definition and Market Power

1. Does Chrysler's decision to raise the price of autoparts to Brunet reflect Chrysler's ability to extract a higher sum of money from a buyer through the exercise of excessive market power? Market power is defined as the ability of a firm to achieve profits by charging more than a competitive price for its product[5]. The concern over market power or the absence of competition in the relevant market is reflected in the wording of subsection 1b) of section 75 of the Competition Act, and is often the basis for prohibiting particular trade practices under competition law referring to monopolization and abuse of dominant position.

2. Two questions arise in considering the hypothesis that market power led to the alleged refusal to supply: a) Did Chrysler have substantial market power?, and b) Could market power or the absence of competition have led to the refusal to supply?. An affirmative answer to both of these questions is necessary if the practice is to be labelled as anti-competitive.

3. It is in establishing whether there is any market power that the concept of "relevant market" arises. There are usually two dimensions to the definition of the relevant market: the class of physical products to include, and the geographical extent of the market.[6] A group of products which are close substitutes in demand or supply and for which there are no other close substitutes constitutes a market[7]. In most cases, a dominant position of a firm within a market so defined and a very high concentration[8] of firms in the market creates a presumption of market power. In the current case, a third dimension - the "vertical" dimension - of the market definition question must be

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[5] See Hovenkamp, Economics and Federal Antitrust Law: 55.

[6] William M. Landes and Richard A. Posner, " Market Power in Antitrust Cases", Harvard Law Review, Vol 94, No. 5 (March 1981); Herbert Hovenkamp, <u>Economics and Federal Antitrust Law</u>, 1985, West Publishing, pp. 55-77.

[7] More precisely, a relevant market can be defined as "the smallest market for which the elasticity of demand and supply are sufficiently low that a firm with 100% of that market could profitably reduce output and increase its price substantially" (Hovenkamp, *op.cit.* at p. 59).

[8] "Concentration" is defined as the extent to which a large share of a market is held by a small number of firms.

addressed: whether the relevant market is the wholesale market for parts in which the buyers are the distributors, or the final market for parts in which the buyers are dealers, service stations or consumers. I consider below the product, vertical and geographical dimensions of the market definition issue in turn.

4. Consider first the product dimension of the market definition issue. Chrysler is, of course, the only firm that produces Chrysler cars and captive autoparts for Chrysler cars, which comprise a major portion of Brunet's purchases. But Chrysler's position as the only seller of captive Chrysler parts does not give it market power. The market for captive Chrysler autoparts, or even autoparts in general, constitutes a market according to the criterion outlined in the previous paragraph, but it is not the *relevant* market for assessing the extent of Chrysler's market power. The relevant market for this purpose is the market for automobiles.

5. An analogy is helpful at this point. The market for cameras is today very competitive, with many firms producing close substitutes and competition among the firms active in both price and technology dimensions. In some cases, a camera manufacturer is the sole producer of film compatible with a particular model of camera that it sells. Does this position as the sole producer of compatible film yield market power for the manufacturer? Obviously not. The market in which the camera manufacturer competes is properly defined as the market for photographic services, or packages of cameras and film, and it is the price for this entire package that buyers in the market consider. If the manufacturer tried to extract excessive profits from consumers by increasing the price of film, its sales of cameras would drop because consumers consider the cost of film as part of the cost of owning and using the camera. The manufacturer's position as the sole producer of film for its camera does not indicate a lack of competition in the relevant market.[9]

6. The relevant market to consider in assessing Chrysler's market power is the market for automobiles. In purchasing an automobile,

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[9] If, instead of a competitive structure in the camera market, a camera producer has a dominant market share and also produces exclusively film for its own cameras, then the analysis is more involved. But the conclusion remains that a camera firm cannot increase the market power that it has in the "photographic services" market by developing a camera for which it alone can provide film. See Berkey Photo, Inc. vs. Eastman Kodak Co., 603 F.2d. 263, cert. denied, 444 U.S. 1093, 100 S.Ct. 1061

a consumer buys the future flow of services provided by the automobile; the price the consumer pays for this product consists of the initial price of the automobile plus the expectation of maintenance costs, including the prices of captive autoparts sold only by Chrysler. Information about such costs is readily available to consumers through consumer publications and in general, reputations for low or high maintenance costs are quickly established for car models. Chrysler could not extract monopoly profits from its position as the sole producer of captive parts for Chrysler; a substantial increase in prices for these parts would lead to a reputation for Chrysler automobiles as expensive to maintain and repair and consequently a drop in the demand for Chrysler automobiles. Chrysler can extract excessive profits from buyers only to the extent that it possesses market power in the market for automobiles. If Chrysler is a non-dominant competitor in the market for automobiles, then it cannot earn excessive profits through raising the price of its captive autoparts. In short, the relevant market in which to assess Chrysler's dominance is the market for automobiles, not the market for captive Chrysler autoparts.

7. Consider next the vertical dimension of the market definition question. As mentioned above, in determining the relevant market in this case, it is important to distinguish between the wholesale market, in which the buyers are distributors, and the final market in which the buyers are consumers.

8. The relevant market for assessing Chrysler's market power is the final market, not the wholesale market. If the final market for automobiles is competitive, with many sellers and low seller concentration, then there is little potential for market power on the part of any automobile manufacturer. In particular, establishing a distribution system in which each distributor carried the firm's products exclusively would not *create* market power for an automobile manufacturer. In the market for products bought by a particular distributor, the manufacturer would be the only seller; but the manufacturer's dominant position in this narrowly defined market is irrelevant for assessing the extent of market power. Establishing exclusive dealers cannot create market power for a manufacturer where none existed before. Nor, by the same argument, does the relative specialization by each distributor on particular products - or "near exclusive dealing" - create market power for a manufacturer.

9. Manufacturers facing a competitive final market for any product are forced, by competition and the need to survive in the market to establish efficient distribution systems, i.e. distribution networks and contracts with distributors that get the manufacturer's product into consumers' hands at the lowest possible cost.[10] If a manufacturer adopted a distribution system that was not cost-efficient, it would suffer low demand for its product and consequent low profits as the price in the final market reflected the high cost of distribution.

10. An efficient distribution system may involve the specialization by each distributor on a particular brand, even exclusive dealing; but such concentration is not a source of manufacturer's market power. On the contrary, exclusive dealing is often observed in competitive markets as firms are forced to establish efficient distribution systems[11]. The fact that Chrysler was the sole supplier of captive Chrysler parts to Brunet and comprised most of Brunet's business says nothing about the market power of Chrysler; this market power is determined by Chrysler's portion in the market for automobiles and the concentration in the market for automobiles.

11. The Economic Council of Canada recognizes that in competition policy, it is the final market where competitiveness and the effect of policy should be assessed:

> "[R]elations between, say, retailers and suppliers should never be considered independently of the state of affairs in the final market where retailers meet consumers. Where that final market is characterized by vigorous competition of a type beneficial to consumers, a "squeeze" being experienced by suppliers may largely represent a normal "upstream" transmission of competitive pressures, perhaps exacerbated in some cases by the temporarily disturbing introduction of more efficient production and distribution techniques. Where, on the other hand, the final market is not notably competitive, the squeezing of suppliers may be more in the nature

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[10] The idea that contractual relationships between manufacturers and the distributors of their products are the cost-efficient outcome of competition is the theme of what Dunlop, McQueen and Trebilcock refer to as the "revisionist" literature on the economics of vertical restraints (Bruce Dunlop, David McQueen and Michael Trebilcock, Canadian Competition Policy, 1987 Canada Law Book Inc., at p.263). Prominent contributions to this economic literature include Posner, Richard, "The Next Step in the Antitrust Treatment of Restricted Distribution: Per Se Legality," The University of Chicago Law Review, 48, Winter 1981, 6-26.

[11] Howard Marvel, "Exclusive Dealing", 25 Journal of Law and Economics 1 (1982).

> of an exercise of market power, possible tending towards an eventual elimination of independent suppliers... Even here, however, the real crux of the situation remains the noncompetitiveness of the final market. Only those policy actions that in one way or another correct this are likely to have much beneficial effects." (Economic Council of Canada, Annual Report, 1969 at p. 12)

12. The third and final dimension of the product definition issue is the geographical dimension. Chrysler competes in the world market for automobiles, i.e. the automobile markets in all countries that accept Chrysler automobiles as imports. The market that Chrysler reaches through exporters such as Brunet is narrower; this includes the world market apart from North America. But producers of automobiles for the North American market (if they were indeed different than producers for the rest of the world) could easily enter the offshore market. The relevant market therefore includes North America as well. The geographical boundary of the relevant market for assessing the market power of Chrysler includes any country to which Chrysler exports cars.

13. In sum, the relevant market for considering the extent of Chrysler's market power is the world market for automobiles. Figure 1 illustrates the sales of automobile producers from OECD countries in 1984 and 1985, which was just before the date when Chrysler imposed the restraint on Brunet. (This figure overstates the concentration in the world automobile market due to the exclusion of South Korean production.) It illustrates that while the market is relatively concentrated, with the four largest firms having about 69 percent of the market (which, again, is an upwardly biased figure). However, the automobile market is a one in which price competition and competition in technological innovation is quite intensive, in my view, especially with the growth in market shares of the Japanese and South Korean automobile manufacturers. The concentration ratio may well understate the extent of competition in the market. More important is the fact that Chrysler has only about 7 percent of the market. Chrysler is not in a position of dominance in the world automobile market.

14. A discussion of Chrysler's share in the world automobile market may seem far removed from the context of this case, a contractual restriction placed on a distributor in Montreal by Chrysler. It establishes, however, that Chrysler is a competitor without much market power. In paragraph 10 of this section, I argued that two conditions must be satisfied for the alleged refusal

to supply to be considered anti-competitive, or a consequence of market power. To reject the market power explanation of the alleged refusal to supply, it has been sufficient to show that Chrysler did not command substantial market power in the relevant market.

15. It is worth pointing out that even in the hypothetical situation in which Chrysler were a dominant power in the world automobile market, it would not use this power to attempt to extract profits from a distributor by excessively raising prices to the distributor (the alleged "refusal to supply"). Whatever its monopoly power in the final market, a manufacturer that exploited the specific investment of the distributor (i.e., the distributor's commitment to the manufacturer's product) by raising the price to the distributor would suffer a loss in its reputation among distributors as offering profitable product lines. Distributors would be reluctant to commit investment to carrying the manufacturer's product, and the manufacturer's distribution of the product would suffer. The logical implication is that whether the manufacturer has market power or not, its interests are served by maintaining a network of distributors and a set of contracts with distributors that gets the products to consumers at the lowest cost. If, as in the current case, a manufacturer finds it profitable to insist that all distributors face the same wholesale prices from the manufacturer, it is because this arrangement is efficient. The contractual arrangements struck by a manufacturer with its distributors are generally governed by the goal of cost minimization, not by market power.

C. An Efficiency Explanation of Chrysler's Restraint on Brunet

1. A rejection of the market power explanation of the contractual restraint at issue in this case is enough to show that the restraint was not anti-competitive. But in claiming that the restraint was cost-efficient, it behooves me to offer a specific explanation of why a competitive automobile manufacturer would adopt such restrictions. In my view, the hypothesis or explanation offered in this section for Chrysler's restriction against sourcing from Chrysler Canada is the most likely reason for the restriction. This may not have been the actual reason, and there may well have been other reasons why Chrysler found it efficient to centralize distribution for export through the U.S. parent. However, from my vantage point

as an economist, the action of Chrysler makes economic sense as a reaction to what I believe to be the dominant changes in the economic conditions facing an exporter from Canada and the U.S. in the late 1970's and 1980's. It is important to note that none of the main policy or normative implications of the analysis depend on the specific hypothesis that I offer, but would follow from any efficiency explanation of the restriction.

2. In my view, one of the most important changes in the economic environment that faced an exporter from North America in the late 1970's and 1980's was the drop in the value of the Canadian dollar, and the continued volatility of the Canadian-U.S. exchange rate. The value of the Canadian dollar fell from about par in 1977 to eighty-four U.S. cents at the end of 1978 and continued to fluctuate, in the 1980's. Figure 2 depicts the exchange rate over the period 1975 to 1989, and illustrates the relative volatility in the rate since 1978.

3. With the fall in the value of the Canadian dollar in the late 1970's, the prices in Canada of automobiles and automobile parts fell relative to their prices in the U.S. (all prices measured in the same currency)[12]. In virtually no sector of the economy do prices respond to changes in exchange rates so as to maintain equality in the prices of the same article in two countries[13].

[12] The following statistics provide evidence of the relative fall in prices of automobiles in Canada over the period 1977 to 1979. Price indices for the years 1977 and 1979, for Canada and the U.S. are as follows:

	Canada (1971 = 100)	U.S. (1967 = 100)
1977	126.4	156
1979	153.1	182

(Sources: Canada: Automobiles Price Index: Canada Statistics "Industrial Price Indexes", Statistics Canada 1981; U.S.: Motor Vehicles Price Index: Statistical Abstract of the U.S., 1980)

These figures indicate (with some approximation, due to the fact that the U.S. index includes trucks) that the Canadian dollar price of automobiles rose by an average of about 21 percent over the two year period, while the U.S. price rose by about 16%. The domestic-currency price of cars therefore rose by about 5% more in Canada than in the U.S. Because the value of the Canadian dollar fell by 16% in this period, this means that the U.S. dollar price of automobiles fell by about 11% in Canada relative to the U.S. dollar price of automobiles in the U.S.

[13] In economic terminology, *purchasing power parity* fails to hold in the short run. For example, in the period 1977 through 1978, the Canadian dollar fell by about sixteen percent against the U.S. dollar, where as nominal prices in Canada rose by only about 2.6% relative to nominal prices in the U.S. (The figure of 2.6 percent is calculated from the inflation rates in Canada and the U.S. in 1977 and 1978; these

4. As a competitor in the market for automobiles, Chrysler is forced to meet market prices; and part of the price that a consumer pays for an automobile is the expected future costs of maintenance, including service parts (*supra*). Chrysler was constrained by market conditions to leave the price in Canada of its parts lower than the price in the U.S. market. If Chrysler, unlike the rest of the automobile manufacturers, had raised prices of automobiles or autoparts in Canada in response to the drop in the value of the dollar, then it would have lost market share in Canada.

5. More generally, as the exchange rate between Canada and the U.S. changes, Chrysler is constrained as a competitor in the automobile markets of both Canada and the U.S. to let the prices for Chrysler captive parts meet market levels in each country. The prices that Chrysler sets therefore differ between the two countries and Chrysler is forced to let this difference in prices vary with the exchange rate if it is to remain profitable. (Prices here refer to prices measured in the same currency, eg., prices in U.S. dollars, of captive parts sold in either Canada or the U.S.) The volatility of autoparts prices in Canada relative to U.S. prices during periods of a volatile exchange rate can be viewed as a market condition or constraint faced by Chrysler.

6. This is an argument that stability in local currency prices in each country, relative to the volatility in exchange rates, benefits a firm. It is couched in terms of a competitive firm, for simplicity and because I believe that the assumption of a competitive market structure is a reasonable approximation for the automobile market. The argument, however, does not depend on the assumption of

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rates were 8.0 and 9.0 percent in Canada, and 6.5 and 7.7 percent in the U.S.: US. Statistical Abstract 1988 at p.453.) The implication of these figures is that for a typical product in the Consumers' Price Index bundle, the price in U.S. dollars of the product in Canada fell by approximately 14.4 percent relative to its price in the U.S.

Evidence that purchasing power parity does not hold with much precision in general has been presented by a number of papers in the economic literature, including Irving B. Kravis and Richard E. Lipsey, "Price Behaviour in the Light of Balance of Payments Theories", Journal of International Economics, vol 8, no. 2, May 1978, pp. 193-246. Professors Kravis and Lipsey conclude (p. 216)

> "As a matter of general judgement we express our opinion that the results do not support the notion of a tightly integrated international price structure. The record ... shows that price levels can move apart sharply without rapid correction through arbitrage."

competition. Even a monopolist benefits from a policy of stability in nominal (local currency) prices; customers of autoparts benefit from stability in a seller's prices over time since it allows them more certainty in planning their purchases and maintenance.[14]

7. Against this setting, the desire of Chrysler to centralize its sales-for-export through its U.S. parent can be explained. Retail market conditions dictate that the prices of automobiles change in Canada relative to the price in the U.S. the exchange rate changes, as explained above. The requirement that distributors for export out of North America buy from the Chrysler, at its U.S. prices, leaves all distributors facing the same set of prices over time. All distributors in the market for export out of North American compete on a "level playing field" when they are all required to purchase on the same terms, with the same currency and at the same prices.

8. If distributors were free to buy from Chrysler Canada, then with the drop in the value of the Canadian dollar in the 1980's distributors of Chrysler products would have become established in Canada to take advantage of the low Canadian prices for autoparts. There would then be two groups of distributors, one in Canada and one in the U.S., facing different costs of sourcing products[15].

9. As long as the Canadian dollar remained low (and as long as Canadian autoparts prices didn't rise to the U.S. levels) the distributors in Canada would have an advantage over their U.S. counterparts and would be able to underprice them in selling to overseas dealers. Over time, however, with increases in the value of the Canadian dollar, the advantage would shift to the U.S. based distributors. Substantial uncertainty and disruption would be created in the distribution sector as the two groups competed with a cost advantage shifting between them with every fluctuation in the exchange rate. Investments made by one group in establishing

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[14] Another reason that a monopolist's prices do not respond one-for-one with exchange rate changes may well be corresponding changes in demand elasticities. For example, when the Canadian dollar fell in 1977-78, it is likely that demand elasticities in Canada, at a constant U.S. dollar price, rose.

[15] In predicting that some distributors would move to Canada rather than sourcing from Canada while remaining in the U.S., I am assuming that there are modest advantages to sourcing locally (for example, the lower delivery costs that Professor Schwindt cites in his report (p.6)). This does not deny, however, that the major part of the assets invested by distributors are product-specific but not specific to Chrysler Canada, as I argued in section III, *supra*.

clientele and brand names in regional markets overseas would be undercut and wasted as the other group of distributors acquired a relative cost advantage with a shift in the exchange rate. Incentives on the part of distributors to undertake these investments are therefore undermined, and the entire distribution of the product suffers.

10. By requiring all distributors to face the same cost conditions, Chrysler was thus guaranteeing some measure of stability in the distribution of its parts for export, as well as protecting investment by distributors in product-specific assets such as the establishment of clientele. The gain in stability and the enhancement of investment conditions in distribution benefits both Chrysler and final consumers, as the mark-up necessary to compensate distributors for their costs (including the costs of facing uncertainty) is reduced, leading to lower prices for final consumers. In short, the centralization of sales-for-export through the U.S. parent may well have been a means of lowering costs in the distribution.

11. Chrysler tolerated the sourcing by Brunet from its Canadian subsidiary. The continued cost advantage of Brunet, however, surely made Brunet a threat to undercut the prices that U.S. distributors had set with overseas dealers and to thus undermine the investment that those distributors had undertaken in building up goodwill and a clientele basis. Competition among distributors is to Chrysler's (and consumers') advantage as it elicits efficiency in distribution; but competition on an "uneven playing field", one that is shifting with every change in the exchange rate, is detrimental to stability and investment incentives in distribution as I explain in the previous paragraph.

12. Therefore, following this hypothesis, Chrysler changed its policy in 1986 of allowing Brunet to continue to buy at advantageous Canadian prices. Chrysler instructed Brunet that it must source from the U.S. parent as all other distributors were required to. In my view, this removed Brunet's cost advantage over the other distributors that arose from the opportunity to source at both Chrysler Canada and Chrysler U.S. This change in Chrysler's policy put all distributors on an equal footing as regards the price and added stability to the market conditions faced by distributors.

13. The only way to maintain a level playing field among distributors over the long run, as currency values fluctuate, is to

have all distributors source in the same currency and at the same prices and terms of trade. Chrysler's restriction on Brunet to source from its parent, removed Brunet's short run cost advantage over other distributors, and in my view added stability in the long run to the Chrysler export distribution network and to the returns of all distributors on their investments in selling effort.

14. Both of the other major North American automobile manufacturers, General Motors Corp. and Ford Motor Corp., follow the policy of centralizing their sales-for-export through their U.S. parent. This supports the hypothesis that Chrysler's decision to centralize such sales was a decision to follow an efficient and standard industry practice.

V. AN ECONOMIC ASSESSMENT OF THE CASE

A. ASSUMPTIONS

1. On the basis of my analysis in Section IV, I offer in this section an assessment of the economic merits of the case. Given that my conclusions in this section are normative, I begin by setting out my assumptions.

2. The most fundamental assumption is that economic consequences have some relevance in the application of Section 75 of the Competition Act. The basis for this assumption is in Section 75 of the Competition Act. The Act states that if the four conditions set out in the section are fulfilled,

> " the Tribunal *may* order that one or more suppliers of the product in the market accept [the buyer] as a customer..."[16] (My italics)

I interpret this to mean that even if the conditions in section 75 could not be denied because of a legal interpretation of the conditions - and I am not suggesting that this is anything but a remote possibility in this case - the Act gives to the Tribunal the mandate to consider whether the remedy should be applied. I

[16] Competition Act, R.S., c-23, as amended, Section 75, subsection 1.

assume that the Tribunal recognizes economic criteria in this consideration.

3. The second assumption that I make is that the relevant criterion - or at least a dominant criterion - in assessing the economic consequences of the decision is the maximization of economic efficiency. The efficiency criterion in this context refers to any reduction in the costs of production and in the prices that consumers pay for products. Elsewhere in the Competition Act, in Sections 82, 86 and 96, efficiency is an explicit criterion. Section 96 discusses the possibility of a tradeoff between efficiency and competition in mergers decisions. I assume here that where a practice both reduces the costs of production and involves no loss in competition - so that the reduction in costs is reflected in a drop in consumer prices - the practice should be allowed.

4. The Economic Council of Canada has supported strongly the goal of efficiency in competition policy:

> "Essentially, we are advocating the adoption of a single objective for competition policy: the improvement of economic efficiency and the avoidance of economic waste, with a view to enhancing the well-being of Canadians. In conjunction with other policies, competition policy should seek to develop an economic environment in which beneficial change will be initiated and carried through, and in which real income will be maximized." (Economic Council of Canada, 1969 Annual Report at p. 19)

5. Two remarks must be offered on the assumption that efficiency is a major criterion in assessing competition policy in this case. First, efficiency refers to the minimization of costs in this context, and *ipso facto* maximizes the total wealth of participants in the market. But any decision in the case also involves transfers of wealth among the participants. In this case, of the three classes of participants in the market whose wealth appears to be directly affected by the decision - Chrysler's shareholders, the offshore purchasers of automobiles and parts, and the distributor, Brunet - only the distributor is Canadian. Should the goal of competition policy in Canada be to maximize the wealth of Canadian citizens only, and does this goal then dictate that only Brunet's interests be considered? My assumption is that the answer to this question is no. A competition policy that attempted to transfer wealth from foreign citizens to Canadians, at the expense of decreasing total

wealth, would have effects analogous to a "beggar-thy-neighbour" policy in setting tariffs. It would invite retaliation by other nations and would eventually lead to a decrease in the wealth of Canadians. The goal of competition policy, I assume, should be to maximize efficiency even if the beneficiaries of the policy in particular instances are foreign.

6. Moreover, I shall establish that the decision in this case does affect the price paid by Canadian consumers in the market for autoparts, and that the criterion of efficiency expressed narrowly as the maximization of the wealth of Canadians leads to the same conclusion about the appropriate decision in this case as the correct efficiency criterion.

7. The second point that should be noted regarding the criterion of efficiency is its implication that competition policy should not be used simply to protect the profits of firms against transfers to other firms, especially if the consequence is an increase in price paid by consumers. Any change in the price or terms of trade between two firms that is reflected in neither a reduction in costs nor a reduction in consumers' price of a good is a pure wealth transfer and as such is neutral according to the criterion of efficiency. A change that increases consumers' price or total costs is detrimental.

B. ASSESSMENT

1. The critical economic question in a normative or prescriptive assessment of this case is whether Chrysler should be allowed to raise prices to Brunet to the level faced by other distributors of Chrysler autoparts, by restricting Brunet to sourcing from Chrysler U.S., or whether Chrysler should be forced to sell to Brunet at advantageous Canadian prices.

2. Chrysler's decision to impose the restriction at issue on Brunet led to a centralization of Chrysler's sales-for-export, in that Brunet was the single distributor who was not sourcing from Chrysler U.S. As explained in Section IV of this report, the evidence supports the position that Chrysler's decision was a means of reducing costs in the distribution sector. The specific hypothesis developed in that Section IV implies that the centralization guaranteed some stability in the relative costs faced by various distributors. The increased stability in the market conditions faced

by distributors of Chrysler parts, lowers costs for distributors. This increase in efficiency, like any reduction in costs, would be reflected in lower prices paid by consumers of autoparts. This implication is true whatever the merit in the specific hypothesis developed in section IV.

3. A decision in this case to require that Chrysler sell to Brunet from its Canadian subsidiary would be a constraint on Chrysler's ability to maintain a stable, centralized distribution system. Such a constraint would raise costs for distributors on average. Prices paid by consumers of autoparts overseas would rise as these prices reflected the increase in costs.

4. A less obvious consequence of prohibiting Chrysler from changing its policy with Brunet, is that the prices of Chrysler autoparts to consumers in Canada would also increase[17]. Suppose that Chrysler were forced to retain Brunet as a distributor through its Canadian subsidiary. Then Chrysler, in its autoparts pricing policy within Canada and the U.S., would have two conflicting objectives when the value of the Canadian dollar is low: a) to set low prices in Canada, for the reasons of increased price stability, as argued in Section IV; and b) to achieve some parity in the costs faced by U.S. distributors and Brunet for export overseas, for the reasons of increased stability in the distribution sector also as argued in Section IV. These goals are in conflict because the second requires a price for autoparts in Canada that is nearly equal to the price in the U.S., else Brunet would *arbitrage* by buying from Canadian dealers. Chrysler's reaction to these conflicting goals, economic theory predicts, would be to compromise - letting the U.S. price and the Canadian price converge somewhat. Of course, since the Canadian market is the smaller it would be the Canadian price that adjusted.

5. Brunet would be somewhat better off if it were left with the freedom to source some parts from Chrysler Canada and some from Chrysler U.S. The improved terms of trade available to Brunet would be a transfer of wealth to Brunet from Chrysler's shareholders. Under the assumptions I posited in this section, however, transfers of wealth that reduce efficiency in the market

[17] This implication depends upon the specific hypothesis developed in section IV. Under other efficiency explanations of the contractual restriction, the prices to Canadian consumers of autoparts may well remain unchanged as only the efficiency of distribution overseas is affected.

and leave consumers facing higher prices should not the objective of competition policy.

6. In sum, the evidence in this case together with an assumption that competition policy should be guided by the goal of efficiency points to a decision of allowing Chrysler to choose its own distribution system, including the contracts with its distributors. As a competitor without substantial market power, Chrysler is bound by the requirement that it minimize costs in designing its distribution system. Any disruption would raise costs and market prices.

VI. CONCLUSIONS

Economic analysis leads to the following general conclusions in this case:

1. On the issue of the relevant geographical market definition for Chrysler autoparts purchased by Brunet, Professor Schwindt arrives at a definition that leaves a single seller, Chrysler Canada, in the market. The evidence, especially the recent financial performance of Brunet, supports the conclusion that North America is the market area for these products.

2. Professor Schwindt argues that Chrysler brand aftermarket parts constitute a market. This definition is too narrow in the products dimension, since the parts produced by many manufacturers are close substitutes in their end use. The preference of some buyers form Chrysler brand parts at current prices does not imply that these brand parts constitute a market.

3. The specificity of Brunet's assets to Chrysler Canada not was not enough to prevent Brunet from sourcing successfully from Chrysler U.S. in recent years, and does not constitute a reason for narrowing he market definition to exclude Chrysler U.S.

4. From an economic point of view, the "refusal to supply" at issue in this case was in fact a decision by Chrysler Corp. (which owns Chrysler Canada) to raise prices to Brunet to the level paid by the other distributors, by requiring that Brunet source under the same terms as the other distributors. A price increase that still allows a buyer to increase net operating income normally does not

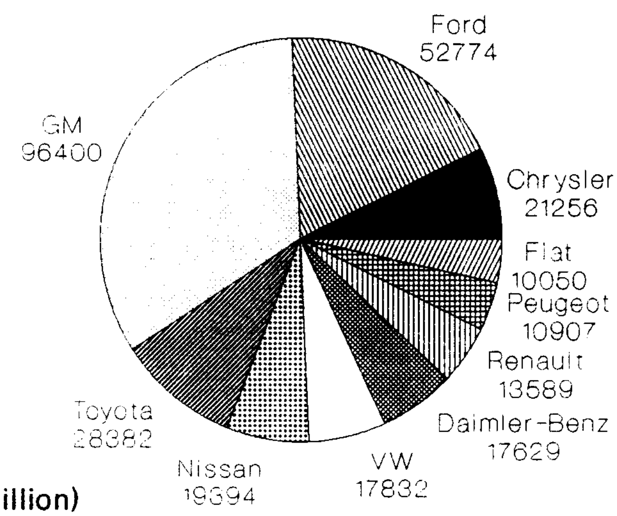
attract the label or connotation of "refusal to deal".

5. In addressing the issue of whether Chrysler had substantial market power, that is, whether the practice was potentially anticompetitive, the relevant market is automobiles, not automobile parts. The price that a consumer pays for an automobile includes the expectation of future repair and maintenance costs, the costs of captive autoparts in particular. Any attempt by Chrysler to raise excessively prices of autoparts would decrease the demand for Chrysler automobiles. Chrysler's market power is limited to the power garnered in the world automobile market. This degree of market power is modest.

6. The restraint that Chrysler imposed on Brunet is therefore explained, from an economic perspective, not as a consequence of market power but as a means of increasing the efficiency of Chrysler's distribution network to overseas dealers. The most compelling specific hypothesis, in my view, is that the purpose of the restraint was to guarantee that all distributors competed on a "level playing field", rather than face a relative cost disadvantage or uneven playing field that shifted with exchange rate fluctuations. Stability in the relative costs faced by distributors adds stability to the returns of distributors and avoids the undermining by advantaged distributors of the investment in specific assets (clientele bases) on the part of other distributors.

7. Whether the "stability hypothesis" is true or not, the predicted consequence of blocking Chrysler from its private choice of distribution contracts, is an increase in prices paid by overseas consumers. If the stability argument is true, the prices paid by Canadian consumers would also rise.

1984-85 Sales of Vehicle Manufacturers
Ten OECD Firms



(US $ Million)

Source: The Costs of Restricting Imports , OECD, 1987

FIGURE 1

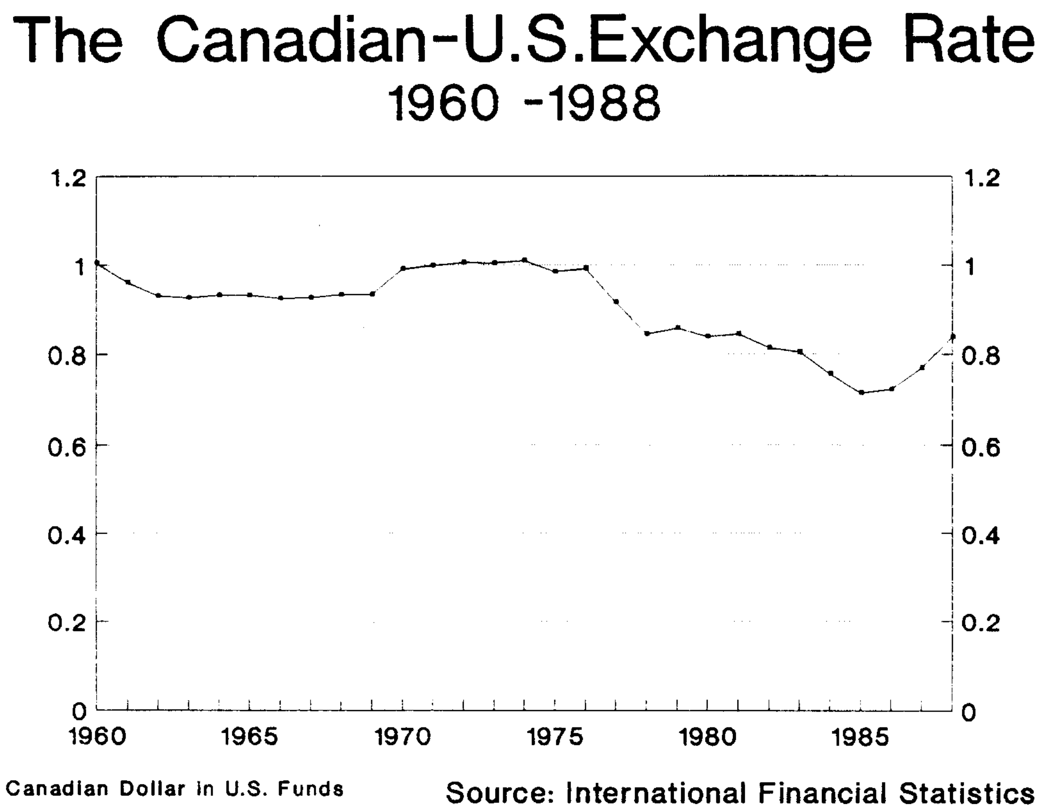

The Canadian-U.S.Exchange Rate
1960 -1988
1.2
1
0.8
0.6
0.4
0.2
0
1960
1965
1970
1975
1980
1985
Canadian Dollar in U.S. Funds
Source: International Financial Statistics

FIGURE 2

CURRICULUM VITAE

Ralph A.Winter

February 1989

PERSONAL

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Marital Status:		Married, one child

DEGREES

Degree	University	Department(s)	Year
B.Sc.(Hon.)	University of British Columbia	Mathematics Economics	1974
M.A.	University of California at Berkeley	Statistics	1978
Ph.D.	University of California at Berkeley	Economics	1979

EMPLOYMENT

1979 - 1985	Assistant Professor, Department of Economics and Faculty of Management Studies, University of Toronto
1985 - 1988	Associate Professor, Department of Economics and Faculty of Management Studies, University of Toronto
1986 - 87	National Fellow, Hoover Institution, Stanford University
1988	Olin Fellow in Law and Economics, Yale Law School
1988 -	Professor of Economics, University of Toronto

MEMBERSHIP IN PROFESSIONAL ORGANIZATIONS

Member:	American Economics Association American Finance Association Canadian Economics Association

SCHOLASTIC HONOURS

Dean's Honours List, University of British Columbia, 1974

John H. Wheeler Scholarship, University of California at Berkeley, 1974-1975

Canada Council Doctoral Fellowship, 1975-1979

Harry Johnson Prize, Canadian Journal of Economics, for Best Article in the CJE, 1983 (with M. Peters)

National Fellowship, Hoover Institution, Stanford University 1986 - 87

Olin Senior Research Fellowship, Yale Law School, 1988

RESEARCH GRANTS

Social Sciences and Humanities Research Council Post-Doctoral Research Fellowship, 1981-1982 and 1982-1983

Social Sciences and Humanities Research Council Research Grant 1983-1985, 1986-87, and 1988-89

PUBLICATIONS

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"The Liability Crisis and the Dynamics of Competitive Insurance Markets", Yale Journal on Regulation, 1988: 455- 500. [refereed]

"Currency Options, Forward Markets and the Hedging of Foreign Exchange Risk", (with R. Ware) Journal of International Economics , 1988

"Vertical Restraints and the Law: A Reply", Rand Journal of Economics, Summer 1988: 298- 303 (with G.F. Mathewson)

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"The Law and Economics of Vertical Restraints", in Trebilcock, Ed., Competition Policy in Canada, forthcoming. (with G.F. Mathewson)

Papers submitted, currently under review or revision:

"The Liability Crisis and the Economics of Competitive Insurance Markets" revised, August 1988

"Solvency Regulation and the Insurance Cycle" August 1988

"Price versus Non-Price Competition in Retail Markets: Vertical Restraints Reexamined", March 1988; revised December 1988