

Economic analysis

Platform Competition: Cofece under the spotlight

El Economista (Mexico)

Diego López

February 15th, 2024

On February 13, 2024 the Investigative Authority (IA) of the Federal Economic Competition Commission (Cofece) preliminarily determined that there are no conditions of effective competition in the retail e-commerce market (marketplaces) in Mexico, proposing a series of corrective measures in order to restore conditions of effective competition.

In Mexico, e-commerce sales reached 5.28 billion pesos (mmdp) in 2022 according to the most recent Study on Online Sales in Mexico published by the Mexican Online Sales Association (AMVO). An alternative methodology from the consulting firm Payments and Commerce Market Intelligence (PCMI) estimates that the e-commerce market in Mexico grew by 34% in 2023 compared to the previous year. The same AMVO reports highlight that in 2018 there were 37 million digital buyers, a figure that has increased more than 170% during the last five years. In summary, changes of individuals' consumption behaviors during the COVID-19 pandemic popularized these marketplaces.

The study of these markets, characterized by their network effects (the value of the service increases the more people use it), requires a “two-sided” approach (there is a relevant market of sellers and another of buyers). Empirical evidence shows that these markets are usually concentrated both in Mexico and other countries. According to the Cofece inquiry, joint market share of Amazon and Mercado Libre in Mexico accounted for 85% of transactions on the seller side and 61% on the buyer side in 2022; giving these firms the ability to set prices, unfairly promote their in-house products, preferences for own logistic solutions and offer bundled products or services in their memberships and loyalty programs (such as streaming services).

Conversely, we only need to look at recent trends on social networks in Mexico to detect a deeply negative consumer sentiment, many of them who believe that the proposed corrective measures (such as eliminating “all-in-one” memberships that bundle marketplace services and streaming, e.g. Amazon Prime and Mercado Play) harm them and take away benefits that they are enjoying as users of these platforms. So, do the corrective measures proposed by Cofece are actually harmful for the consumer? Should these platforms be allowed to continue these practices and even encouraged to integrate more services into their memberships ?

Economic foundations of competition aims at promoting efficiency and innovation in markets through competition within the relevant market. The report “Rethinking Antitrust Tools for Multi-Sided Platforms”, published in 2018 by the OECD, acknowledge that these practices, although they may seem harmless to the consumer who can buy and receive services in a single platform, deter potential competitors from

entering the markets and increase incumbent firms' market power. As such, the approach followed by Cofece is, fundamentally, no different from the one followed by both the Federal Trade Commission (FTC) and the European Commission (EC) since 2021 aiming to regulate the market power of these digital platforms.

The role of the Mexican competition authority in such a relevant market is critical when just a week prior to the inquiry, president AMLO proposed to disband Cofece by reforming Art. 28 of the Constitution returning its faculties to the Ministry of Economy. Although the legislative process of this initiative is (should be) independent of public opinion, the timing of the inquiry combined with the negative consumer sentiment has left Cofece under the spotlight.

DISCLAIMER

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbvarsearch.com.

ENQUIRIES TO:

BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.
Tel.: +52 55 5621 3434
www.bbvarsearch.com