GEO-BLOCKING: INTERNATIONAL PRICE DIFFERENCES IN ONLINE MARKETS
Frank Verboven et al.

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Geo-blocking and e-commerce within EU

- Two very interesting contributions by Frank & co-authors.
  - Fast convergence, online only slightly faster than offline, pricing-to-market rather than local distribution costs main source of international price differences
  - Study geo-blocking within a structural model as imposing uniform online prices, find that banning geo-blocking is welfare decreasing (prices increase and profits fall).
- Documentation of interesting phenomena
- Useful methodology to study geo-blocking within a structural empirical model

Geo-blocking and e-commerce within EU

- Low trade in consumer electronics across Member States: Warranty? Service? Logistics?

- Product aggregation and product availability

- Need to understand the online-offline interaction better; not the same across firms or industries.

- There is a number of counterintuitive results that make the welfare calculations hard to believe:

    - Negative utility from buying online

    - Little variation in elasticity (contradiction between the papers)

    - High local distribution costs in Belgium and Denmark?

    - Small spillovers between online and offline

    - Model takes the product selection as given

Geo-blocking and e-commerce within EU

BIG PICTURE

- ✓ The aim of banning geo-blocking is to make arbitrage easier
- ✓ (BIG irony is that audiovisual is currently exempt)
- ✓ Can that backfire? Increase prices and reduce welfare? Possible in theory; "yes" in simulations shown by Frank & co.
- ✓ Given product variety, for sure there would be winners and losers
- ✓ Effect on variety the hardest to predict: benign demand expansion or shake out and increase in market concentration a la Sutton?
- ✓ Fasten your seat belts…

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