



Narrowband Remedies

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Potential problems in narrowband



- ❑ Narrowband = POTS (voice & fax) + dial-up internet access
- ❑ Key problem: lack of effective competition in the provision of access (to residential customers, in rural areas)
 - ❑ Retail access market
 - ❑ Call origination and termination
 - ❑ Vertical integration and leverage incentives
- ❑ Thin routes (perhaps in combination with strategic over-investment)
- ❑ Lack of liberalisation in other countries
- ❑ Incumbency advantages from existing customer relationships
- ❑ Call termination problem if access competition is effective

Considerations in the choice of remedies



- ❑ Wherever possible, address cause, not symptom
- ❑ Sustainable competition requires infrastructure investment
- ❑ Impact of access regulation on investment incentives
 - ❑ Regulatory principles aimed at preventing inefficient bypass compared to a situation of perfect regulation (focus on costs, not on benefits from competition compared to regulation)
 - ❑ Asymmetry between entrants and incumbents with regard to 'wait-and-see' strategies
- ❑ Implementation problems
 - ❑ Cost measurement
 - ❑ Demand conditions
- ❑ Implementation costs
- ❑ Interaction between regulatory measures

Call origination



❑ Issues

- ❑ Without vertical integration, only problem would be 'excessive' charges for call origination
- ❑ Vertical integration creates incentives for discrimination/leverage, in particular where network charges are regulated

❑ Implications for remedies

- ❑ If access competition is effective, no intervention required
- ❑ Otherwise, some form of price control required - none of the other obligations listed in the AD individually or jointly address the problem
- ❑ Price caps affording flexibility to structure mark-ups are preferable to detailed interconnection price lists
- ❑ Vertical separation/arms-length requirements would help to address discrimination/leverage
- ❑ With vertical integration:
 - non-discrimination requirements (+ transparency, accounting separation etc.) to facilitate monitoring
 - accounting separation plus regulatory measures to remove incentives for leverage (e.g. global price caps)
- ❑ Preventing discrimination through non-price terms difficult, may require detailed list of access obligations (which in itself is problematic)
- ❑ Use of information obtained by regulated firm is an issue

Call termination



❑ Issues

- ❑ Different from call origination if there is effective access competition (and incoming call prices are unimportant in choice of access provider)
- ❑ Mutual dependency of competing access providers on each other's termination implies that termination charges can be used to affect retail competition

❑ Implications for remedies

- ❑ Where competition for subscribers is not effective, treat the same as call origination
- ❑ Otherwise, inclusion in an general network price cap is not effective, separate regulation required
- ❑ Additional regulatory options created by mutual dependency
 - Reciprocity requirements
 - Imputation rules (but termination-based price discrimination can be beneficial)
- ❑ Competitive benchmarks/yardsticks can be used (if access competition is effective)

Conveyance and switching



- ❑ Only a problem on thin routes, where these are price differently or bundled with/tied to more competitive routes
- ❑ Similar to call origination
- ❑ Additional options:
 - ❑ Require uniform charges (where these do not already exist)
 - ❑ Prevent service bundling (of competitive and uncompetitive segments)
 - ❑ But both price discrimination and bundling have potential efficiency justifications!
 - ❑ Include requirement to include termination through incumbent's interconnection agreements (priced appropriately)

Retail access & calls



- ❑ Impact of USO and historical below-cost access prices
- ❑ Main issue is to prevent disadvantages for CS/CPS operators which might arise through bundling
 - ❑ Requirement to offer standard access service to be used with CS/CPS services, but difficult to determine at what price
 - ❑ Wholesale line rental product to afford more flexibility to CS/CPS operators
- ❑ Resistance to multiple bills could be addressed through bill-through requirements
- ❑ WLR may be more attractive than, bill-through, but may adversely affect the attractiveness of LLU
- ❑ Price discrimination and predation etc. should be dealt with under competition law - case-by-case assessment required (general mirroring of competition law obligations in the regulatory framework possible, but should not lead to ex-ante obligations not to engage in specific and formally defined behaviour)
- ❑ Where incumbent is the sole provider of calling services on international routes, 'termination' requirement (priced at settlement rate plus) preferable to wholesale obligation at retail minus

Some general observations



- ❑ Avoid drawing up detailed lists of services to be provided, and prices for these services, wherever possible
- ❑ Avoid proliferation of regulated access products, in particular where these are (partial) substitutes
- ❑ Avoid access services where the access seeker adds little value (e.g. wholesale equivalents of retail services for pure resale)
- ❑ Take account of imperfections in the application of regulatory policy