
Price squeeze tests in electronic communications: ARCEP's experience

Competition Law and Electronic Communications
Brussels, June 19, 2008

Markets foreclosure

- Generic market structure
 - Vertically integrated incumbent
 - Monopoly or significant market power on the upstream market (e.g. essential facility detention)
 - Competitive downstream market
- Upstream SMP may gives incentives to practice excessive pricing which
 - favours downstream activities of the incumbent
 - prevents existence, development and sustainability of downstream competition

How to prevent markets foreclosure ?

- Once (vertically integrated) incumbent's SMP has been proved,
 - ... by limiting upstream excessive pricing (e.g. costs oriented tariffs)
 - ... by monitoring downstream tariffs.
- Imposition of the so-called obligation « to practice non-eviction tariffs »
 - on successive upstream (wholesale) markets (e.g. Bitstream)
 - on retail markets (e.g. communications on fixed networks).

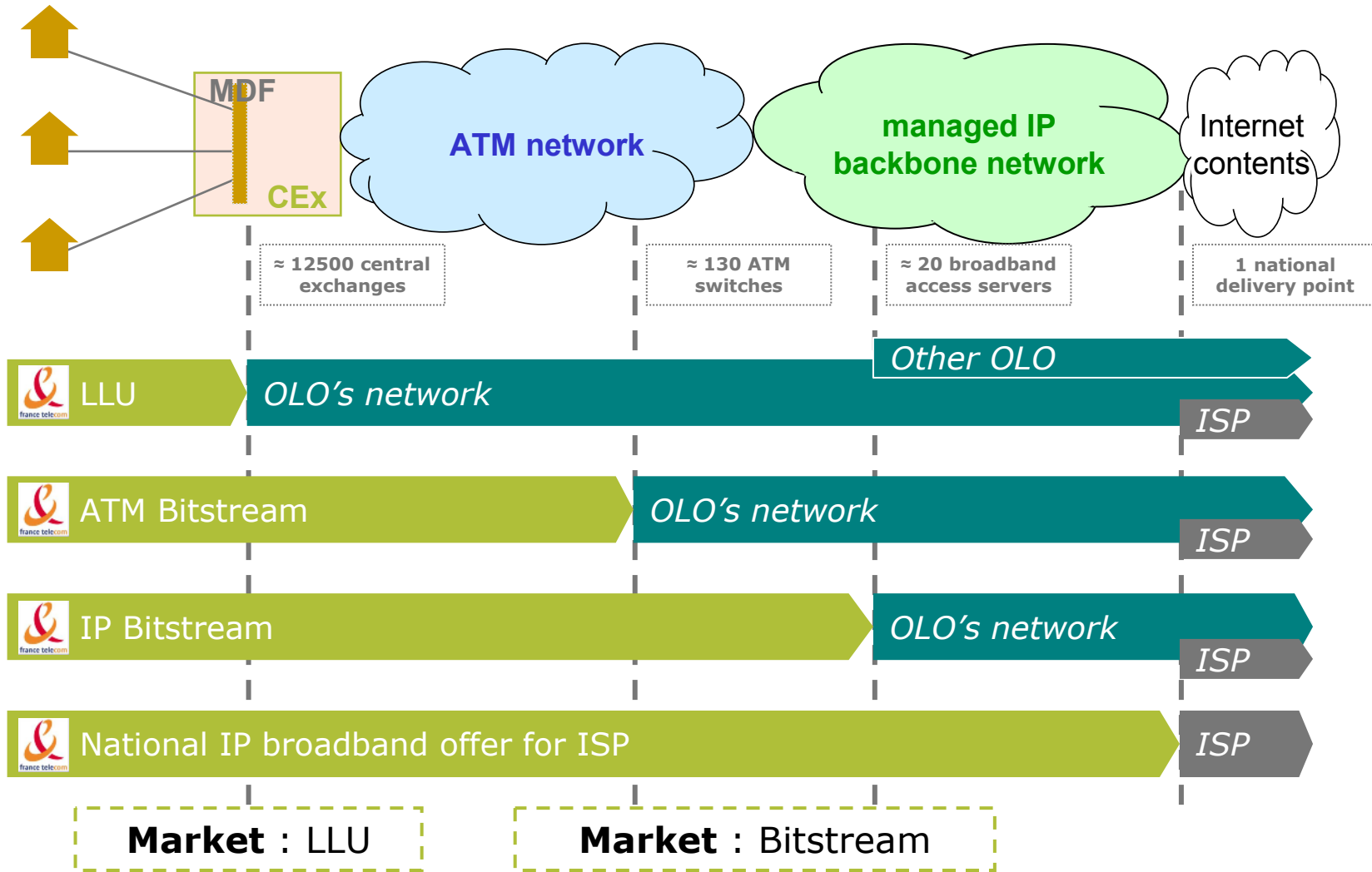
ARCEP's doctrine

- Regulatory purpose:
 - to create a sufficient « economic space » to alternative operators
 - to let them develop and reach critical size in a market characterized by significant economies of scale and scope
 - to favour potential new entry by enabling positive returns
 - i.e. to give alternative operators incentives to compete with the incumbent on downstream markets
 - at the retail level (competition in services)
 - at successive upstream levels (competition in infrastructures) – implementation of the « ladder of investments » concept.

Price squeeze tests design

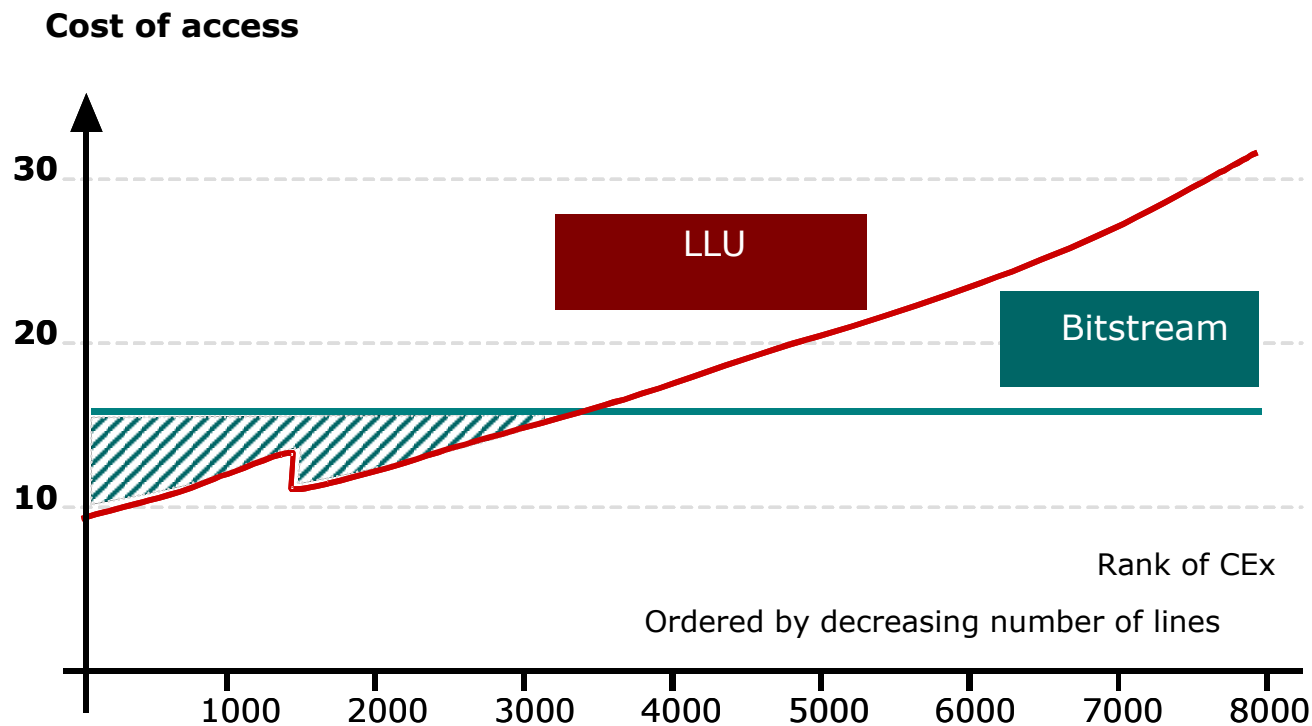
- Difference between downstream and upstream incumbent's tariffs should be greater than **incremental cost of production of the downstream service for a « generic efficient new entrant »**.
- Application to LLU and bitstream markets: implementation of the « ladder of investments » regulatory concept.
- Application to the fixed telephony retail markets: economic replicability of retail offers based on interconnection offers.

Application to LLU and bitstream markets



Application to LLU and bitstream markets

- LLU market: cost orientation
- Bitstream market: cost orientation - no eviction with respect to LLU tariffs
- A cost model (public and designed with the sector) for LLU used as a price squeeze test



Application to LLU and bitstream markets

■ Parameters of the modelling

- ❑ Terms of the reference offer of France Télécom
- ❑ Type of LLU (total, partial)
- ❑ MDF characteristics (size, range, co-localisation...)
- ❑ Market characteristics (penetration rate for DSL, market share, LLU growth rate...)
- ❑ Line characteristics (access services, churn rates...)
- ❑ Equipments cohabitation (rooms, energy, cooling, cables...)
- ❑ DSLAM costs
- ❑ Cost of capital
- ❑ Overhead costs (common and commercial costs)

■ FDC or CMILT, CCA.

Economic replicability of retail offers

- Fixed telephony retail markets partially deregulated but still some kind of price control obligations (earlier communication to ARCEP) imposed to FT.
- Price squeeze test compares revenues and charges obtained by an « efficient alternative operator » in carrier selection situation which would propose an identical offer
 - same tariffs
 - provided with its own network and interconnection offers.
- Positive test when efficient operator's offer economically viable.

Economic replicability of retail offers

- (Public) modelling of costs incurred by an efficient alternative operator for different types of calls (F2M, Local, ...) and different types of consumers (residential and non residential)
- Four main costs items:
 - Collection and termination costs (interconnection offers bought to France Télécom)
 - Transportation and commutation costs (own network costs)
 - Commercial costs (marketing, sales, billing ...)
 - Common costs.

Economic replicability of retail offers

	Local			Interurbain			vers Orange			vers SFR		
	Résidentiels	Professionnels Entreprises petits sites	Entreprises Grands sites	Résidentiels	Professionnels Entreprises petits sites	Entreprises Grands sites	Résidentiels	Professionnels Entreprises petits sites	Entreprises Grands sites	Résidentiels	Professionnels Entreprises petits sites	Entreprises Grands sites
Unité : c€/min												
Recette de base	3,55	4,84	4,84	5,99	8,11	8,11	16,11	16,90	16,90	16,11	15,71	16,90
Coût unitaire												
Charge à l'appel	0,04	0,06		0,02	0,05		0,07	0,08		0,07	0,08	
Partie à la minute	0,47	0,53		0,43	0,52		0,49	0,52		0,49	0,52	
BPN	0,09	0,09		0,09	0,09		0,09	0,09		0,09	0,09	
LR/colocalisation	0,03	0,03		0,03	0,03		0,03	0,03		0,03	0,03	
Collecte	0,63	0,71	0,00	0,56	0,70	0,00	0,69	0,73	0,00	0,69	0,73	0,00
Commutation	0,10	0,10	0,10	0,20	0,20	0,20	0,13	0,13	0,13	0,13	0,13	0,13
Transmission	0,16	0,16	0,16	0,20	0,20	0,20	0,17	0,17	0,17	0,17	0,17	0,17
Transport	0,26	0,26	0,26	0,40	0,40	0,40	0,29	0,29	0,29	0,29	0,29	0,29
BPN	0,09	0,09	0,09	0,09	0,09	0,09	0,09	0,09	0,09	0,09	0,09	0,09
LR/colocalisation	0,03	0,03	0,03	0,03	0,03	0,03	0,08	0,08	0,08	0,09	0,09	0,09
Charge à l'appel	0,04	0,06	0,06	0,02	0,05	0,05						
Partie à la minute	0,47	0,53	0,53	0,43	0,52	0,52	7,50	7,50	7,50	7,50	7,50	7,50
BPN de l'opérateur destinataire												
Surcharge TA alternatifs	0,05	0,04	0,04	0,05	0,04	0,04						
Terminaison	0,68	0,75	0,75	0,61	0,74	0,74	7,67	7,67	7,67	7,68	7,68	7,68
Service Universel	0,003	0,00	0,00	0,01	0,01	0,01	0,01	0,015	0,02	0,01	0,01	0,02
Coûts commerciaux	0,90	0,90	0,90	1,20	1,20	1,20	2,60	2,60	2,60	2,60	2,60	2,60
Coûts communs	0,05	0,05	0,05	0,06	0,06	0,06	0,12	0,12	0,12	0,12	0,12	0,12
Total coûts	2,52	2,68	1,97	2,84	3,10	2,41	11,39	11,43	10,70	11,39	11,43	10,70
Marge	1,03	2,16	2,87	3,15	5,01	5,71	4,72	5,47	6,20	4,72	4,28	6,20
Taux de marge	29%	45%	59%	53%	62%	70%	29%	32%	37%	29%	27%	37%

Conclusion

- Modelling reviewed regularly and adjusted when required for specific cases.
- When downstream markets functioning will effectively tend towards competition and when infrastructure competition will reach an optimal level, we should expect convergence between costs structures of « efficient alternative operators » and the ones of incumbents.
- This would reconcile the ex ante and ex post approaches of price squeeze tests.
- Issues of transitional periods (with downstream deregulated markets and upstream regulated markets).

Thank you for your attention !
