Market power,
Anticompetitive practices and
Types of regulatory intervention

Hans Bakker,
director of Regulaid –The Netherlands
Two types of regulatory interventions:

- Asymmetrical obligations imposed on operator with dominance (significant market power/SMP) to establish level playing field

- Other obligations imposed on all operators for the benefit of the functioning of competition and protection of consumers
Three types of market dominance:

- Single Dominance Significant Market Power
- Leverage SMP
- Joint dominance
Market delineation determines chance of SMP
Geographical market

International market

National market

Regional market
Geographical market
## Product market

<table>
<thead>
<tr>
<th>Voice over IP market</th>
<th>Fixed voice calls market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile voice calls market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fixed voice calls market</td>
</tr>
</tbody>
</table>
Product market

<table>
<thead>
<tr>
<th>Voice over broadband</th>
<th>SMP in Fixed voice calls, Non-SMP in Voice calls</th>
<th>Fixed voice calls market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile voice calls market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The SSNIP (Small Significant Non-transitory Increase in Price) test:

The smallest (group of) product(s) and the smallest geographical area in relation to which sellers, if acting as an individual seller, could profitably impose and sustain a significant and non-transitory price increase.
No critical loss by substitution by other products

Small but significant price increase without “leaking” of demand

No critical loss by switch to suppliers from other area

Relevant market
Single dominance/SMP

Competition is not effective is there is one (or more) players “in a position if economic strength, affording it the power to behave to an appreciable extent independently of competitors, consumers and ultimately customers”
Single Dominance SMP

SMP Company can behave independently from competitors and consumers

Does not lead to loss of market share to competitors

Does not inflict loss of profit

Relevant market
Single dominance/SMP mostly based on market share

Rule of thumb:

- Market share >50 %: presumption of SMP (SMP unless…..)
- 25 % < Market share >40 %: possible SMP
- Market share < 25 %: presumption of no SMP (no SMP unless…..)
Examples of other factors to take into consideration (1)

Overall size of undertaking
Control of infrastructure that is not easily duplicated
High barriers to new market entry
Technology advantages
Low countervailing buying power
Privileged access to capital
Ability to offer bundling of products
Economies of scale and scope
Vertical integration
Highly developed distribution/sales network
Absence of potential competition
Barriers to market expansion and to switching
Persistent excessive pricing ability
Examples of other factors to take into consideration (2)

Evidence of previous anticompetitive behaviour
No active competition behaviour in marketing, R&D
Lack of transparency for consumers
Price trends

Based on such factors
- Companies with high market share may not have SMP (e.g. provider in business market dealing with strong countervailing buying power)
- Companies with low market share may have SMP (e.g. if they control essential infrastructure)
Leverage SMP

• If a company has SMP in one market, it may also be deemed to have SMP in a closely related market if the links between the markets allow for leveraging of market power from one market to another.

• E.g. relevant for upstream – downstream markets (wholesale-retail, network-services) and for e.g. multi-service utility companies.
Joint dominance (1)

Two or more jointly dominant players due to market structure that induces tacit collusion (co-ordinated behaviour without explicit agreement) leading to abuse of joint dominance.

Unlike the case of cartels there is no need of evidence of agreement or malicious abuse. Due to the market characteristics the collusive behaviour can be evidently profitable and rational.
Joint dominance (2)

Joint dominance indicators:
- Market concentration:
  - small number of competitors
- Transparency:
  - ability to know competitors behaviour
- Mature product
  - not easy to enter market
- Homogeneous product:
  - collusion relatively easy
- Stagnant growth on demand side:
  - if growth, more aggressive competition for higher returns
Joint dominance (3)

Joint dominance indicators (cont’d):
- Similar cost structure of operators:
  - Similar profit levels at given price
- Low elasticity of demand
  - No incentive to undercut competitors prices
- High entry barriers
  - Therefore no threat from potential new entrants
- Lack of technological innovation
- Lack of countervailing buying power
- Informal links between providers

Likely collective interest stronger than likely gains of individual competitive behaviour
EU categories of regulatory interventions (remedies)

In climbing order of intrusiveness:

1. Transparency
2. Non-discrimination
3. Accounting separation
4. Access obligations
5. Price control and accounting obligations
Abusive behaviour e.g.

Monopolize knowledge of network characteristics

Refusal to negotiate, slow down negotiations

Excessive pricing because of inability of consumers to compare offers

Key Transparency remedies

Obligation to publish a Reference Offer with sufficiently unbundled services (subject to approval of NRA) with specified information on technology and network characteristics, terms and conditions, and pricing (often in support of access obligations)

Obligation to publish offers in a comparable format
Abusive behaviour e.g.

| Margin squeeze: higher wholesale charges to competitors than to vertically integrated services |
| Discriminatory, preferential treatment of retail customers |
| Discounts for on-net calls by bigger companies |

Key Non-discrimination remedies

| Offer equal/equivalent services, prices and information to competitor companies as available to vertically integrated service provision |
| Obligation to provide retail services to all retail customers on equal basis |
| Maximum difference of on-net and off-net call charges |
Abusive behaviour e.g. 

Vertically integrated company cross-subsidizes retail prices with wholesale revenues

Cross subsidy from regulated SMP market sales to unregulated competitive market

Key Accounting separation remedies

Separate accounts for wholesale and retail divisions

Separate accounts for regulated products/services and unregulated products/services

Subject to approval and even publication

Regulatory accounts often support non-discrimination and price regulation remedies
Abusive behaviour e.g.

Abuse of control of non-replicable network facilities

Key Access remedies

Obligation to comply to any reasonable request for access to network services or resale of wholesale services

- Terminating and originating of services to/from other networks or service providers
- Resale of wholesale services e.g. wholesale line rental
- Co-location, facility sharing, access to network intelligence
- Operational support systems e.g. billing
Abusive behaviour e.g.

- Excessive wholesale pricing
- Margin squeeze
- Excessive retail pricing
- Predatory pricing

Key Pricing remedies

- Pricing restrictions varying between retail-minus and cost-oriented pricing
- Wholesale price floor or margin squeeze test
- Pricing restrictions based on benchmarking or cost-orientation; price caps
- Retail price floor, non-discrimination or margin squeeze test
Types of regulatory interventions irrespective of market dominance, imposing obligations on all market players to ensure inter alia:

- the right of consumers to a specified contract
- price transparency
- publication of quality of service information (ETSI standards)
- right to entry in directory
- availability of directory services
- free access to emergency services
- provision of number portability (fixed or mobile)
Key best practice principles in applying remedies:

Wholesale market remedies before retail market regulation – let competition do the work

Proportionate remedies – least disruptive option to solve a competition problem

Remedies must allow for / stimulate climbing the “ladder of investment”
Joint dominance remedy

The remedy for a situation of joint dominance is the introduction of a new competitor forcing the players to abandon their collusive behaviour.

In mobile markets e.g. the introduction of an obligation to allow Mobile Virtual Network Operators to access the networks.
Dispute resolution is the ultimate remedy

- For obligations that have not been defined clearly in law and regulations such as ‘reasonable request’

- Regulator must be ready to intervene speedily to prevent dispute procedures to be abused for tactical delays
Thank you

hbakker@regulaid.com