

Draft ERG Common Position on Geographic aspects of market analysis (definition and remedies)

as of 19.06.2008

Anton Schwarz

RTR



Motivation

Approach to geographic
market analysis

Contents

- Motivation
- Approach to geographic market analysis



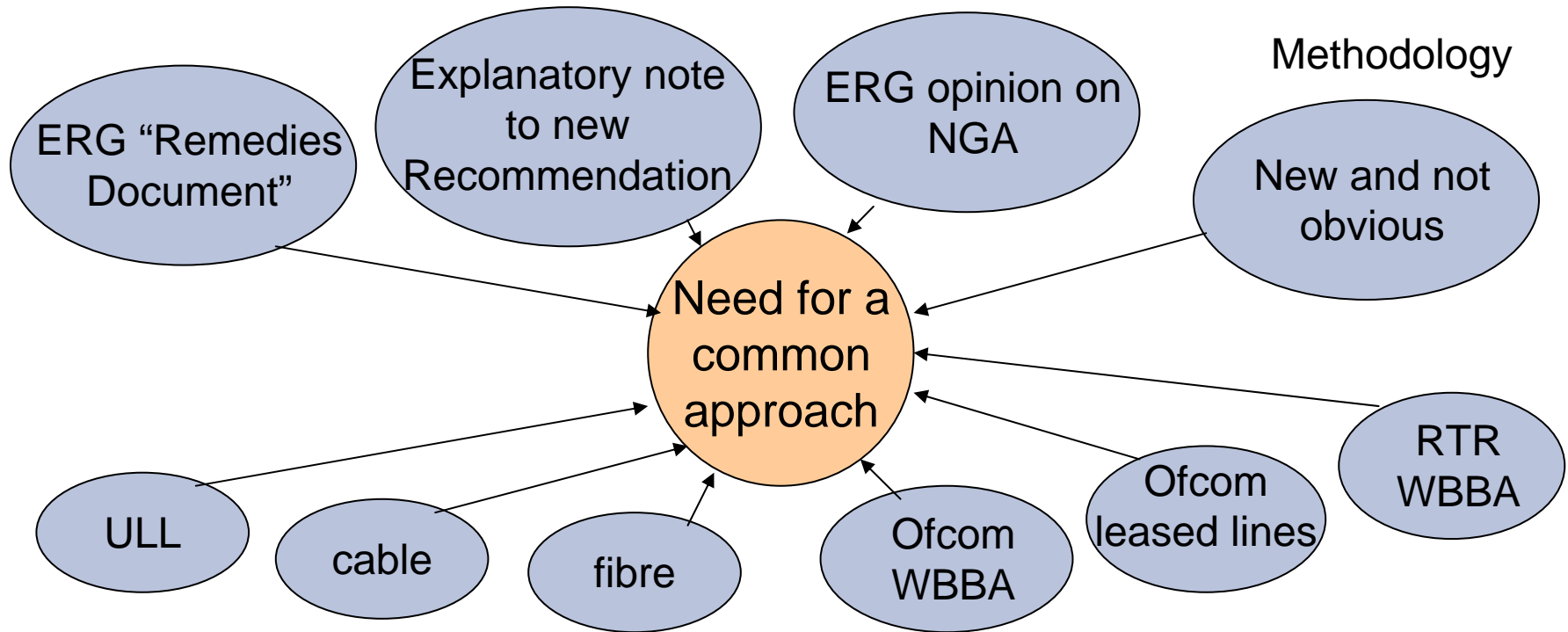
Motivation

Approach to geographic
market analysis

Motivation

Geographic differentiation has become an important issue for NRAs

Mentioned in several documents



Network-rollout of alternative operators often concentrated on urban areas

Recent cases



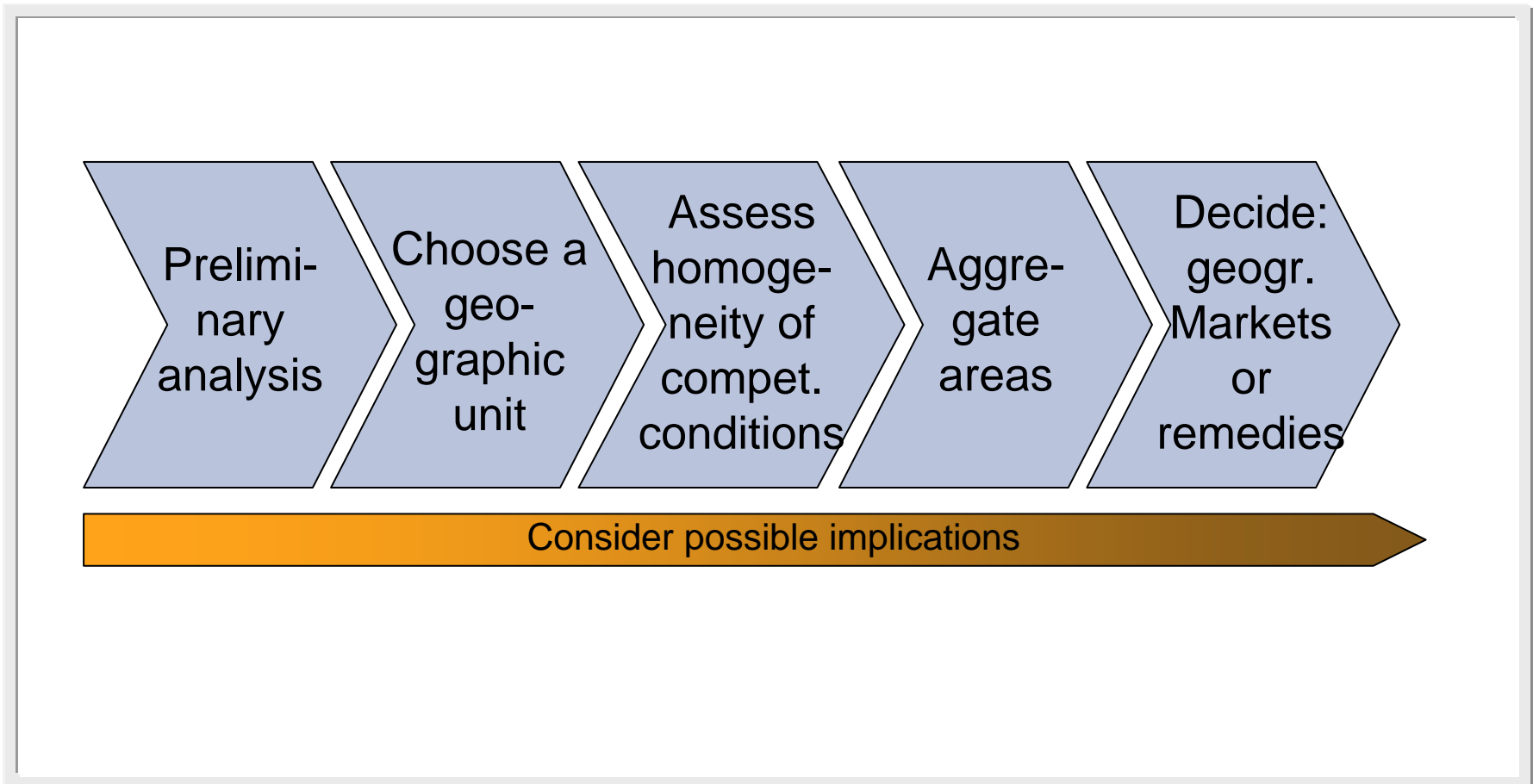
Motivation

**Approach to geographic
market analysis**

Approach to geographic market analysis



Steps in geographic market analysis





Motivation

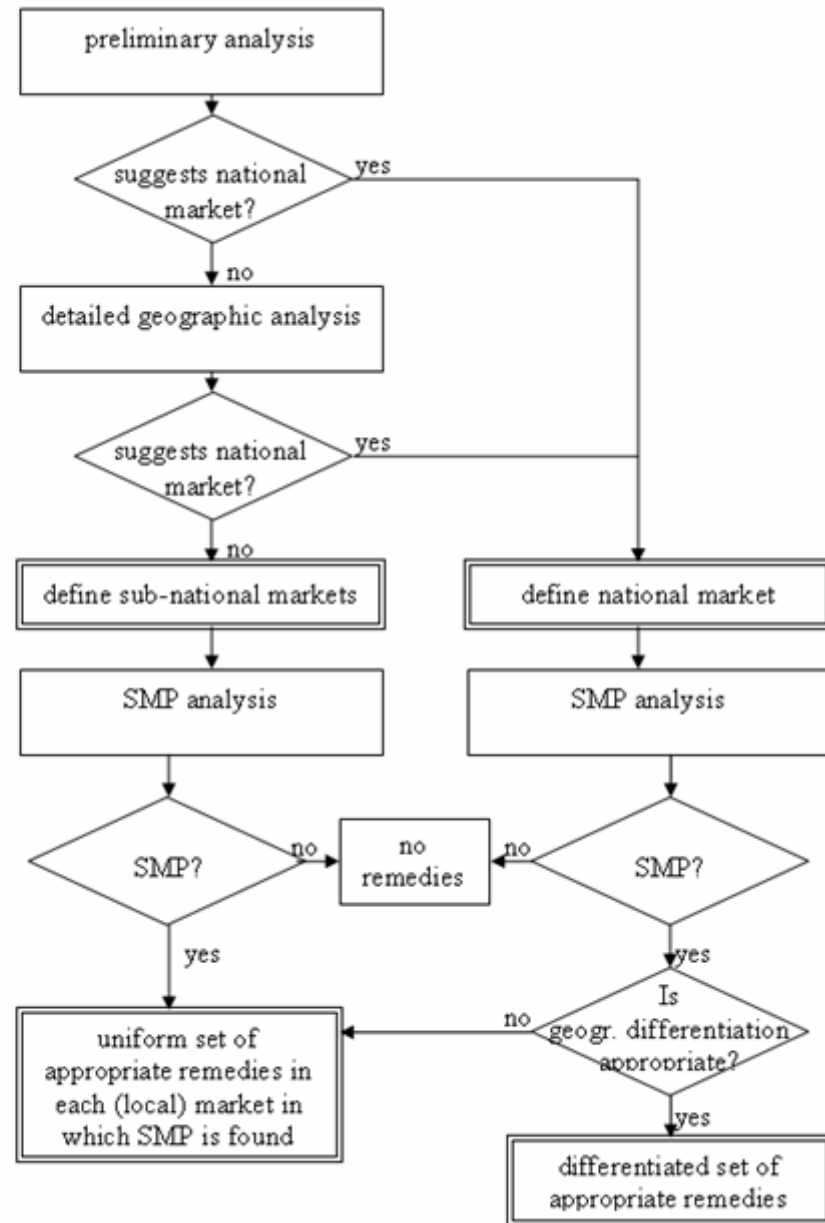
Approach to geographic
market analysis

Steps in geographic market analysis (in the context of the market analysis process)

market
definition

SMP
analysis

remedies





1st step: Preliminary analysis

SMP-Guidelines

- Geographic market definition serves to identify areas where the conditions of competition are sufficiently homogenous

HM-test as starting point

- Is there sufficient substitution between geographic areas?
- If answer is yes -> define a national market
- Sometimes HM-test may result in very narrow markets
 - e.g. buildings, cities, MDFs, street cabinets
- Not sensible to conduct market analysis for each unit
- Aggregate units according to homogeneity of competitive conditions



1st step: Preliminary analysis (cont.)

Main indicators – based on easily accessible data

- Alternative operators have insignificant coverage *or*
- Altern. operators have similar coverage as incumbent
- No significant price differences

Suggests national market

- Altern. operators have less than national coverage and
- exert significant competitive pressure
- Price differences across geographic areas

Suggests that detailed analysis is justified



2nd step: Choose an appropriate geographic unit

The geographic unit will be the basis for the detailed analysis

- Can be based on political boundaries or network topology
 - This is technologically neutral as long as all relevant infrastructures are considered
- Should be
 - mutually exclusive and less than national
 - such that all relevant services can be matched on them
 - small enough that competitive conditions are homogenous but also
 - large enough so to limit burden on operators and NRA
 - clear and stable over time (NGN/NGA!)



3rd step: Detailed analysis of homogeneity of competitive conditions

Goal of analysis

- Identify areas where
 - Competitive conditions are sufficiently homogenous and
 - can be distinguished from neighbouring areas
- Useful to consider
 - where ex ante remedies are required and where not
 - where there are differences in competition problems
- Some conflation between market definition and market analysis
- But goal is not SMP analysis but a hypothesis about significant differences in competitive conditions.



3rd step: Detailed analysis of homogeneity of competitive conditions (cont.)

Analyse several criteria

- barriers to entry → look at demand-related factors:
 e.g. household or business site density
- number of suppliers → possibly focus on 'large' operators ->
 'exclude' niche operators
- 'market' shares → look at 'market' shares and trends
- prices → look at price differences and trends:
 common pricing constraint may suggest that competitive conditions
 are homogenous, but no sufficient condition
- other criteria → marketing strategies, differences in quality,
 nature of demand, ...



4th step: Aggregation according to homogeneity of competitive conditions

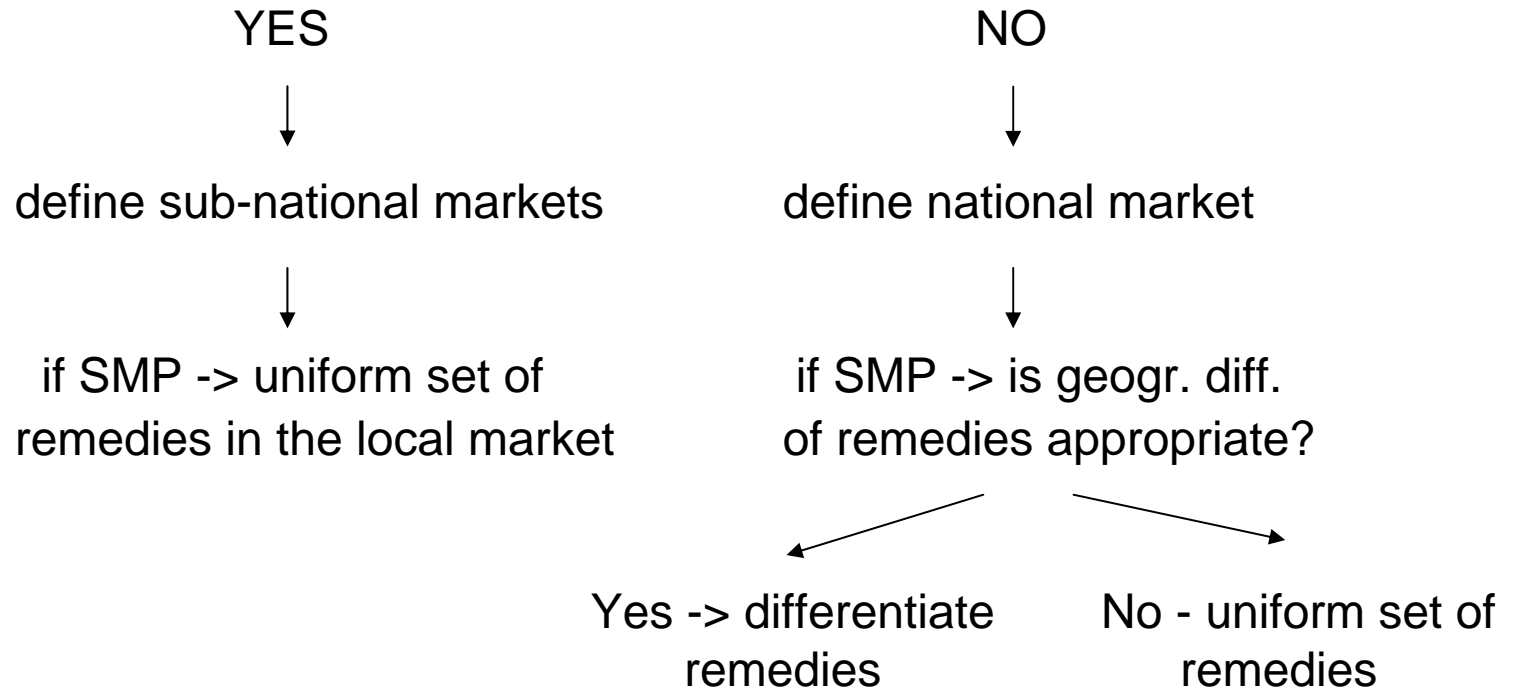
Aggregation is based on the criteria

- criteria will be correlated: low entry barriers -> many operators -> low prices
- but correlation is unlikely to be perfect
- Segmentation should be based on a number of criteria applied cumulatively
- For each criterion, a threshold has to be defined
 - depends on the circumstances -> case-by-case judgement
- Usually there will be a continuum of competitive conditions
 - 'errors' may occur, but errors without differentiation may be much larger
- Boundaries should remain until next review



5th step: Geographic markets or remedies?

Is there sufficient evidence to define sub-national markets?





Possible implications of geographic differentiation

NRAs should be aware of possible implications following from sub-national markets or remedies

- Work load on NRAs and operators likely to increase
 - More detailed data required
 - Analysis is more complex
- Effects on competition in adjacent markets
 - NRAs should analyse impacts of lifting regulation in particular areas
 - E.g. impact on competition for business services in the context of WBBA
- Implementation of remedies
 - ensure consistency of prices between different access products
 - price-squeeze tests and control of cross-subsidization might be necessary



Motivation

Approach to geographic
market analysis

Thank you for your attention!