

RTR and WIK workshop on sub-national markets

# Geographic market analysis: Ofcom's experiences

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Vienna, 20 June 2008

# Content

- Section 1 – Introduction and background
- Section 2 – Developing an analytical framework
- Section 3 – Proposals/ conclusions

# Introduction

- Economic principles underpin the regulatory framework
  - market definition
  - market power analysis
  - remedies
- Two dimensions to market definition (and market power analysis)
  - product
  - geographic
- Hypothetical monopolist test
  - works well for product definition
  - not so good in telecommunications markets for geographic analysis
- Tend to rely on other indicators of competition
  - common pricing constraints
  - cluster markets
  - homogeneous competitive conditions

## Background

- Competition is continuing to develop in telecommunications markets, but often this is not geographically uniform
  - economies of scale and density
- Objective of the market analysis is to assess for which products in which geographic areas there is a need for ex-ante remedies and where there is not a need
- Historically, the imposition of ex-ante remedies has been based on the definition of national markets, but the uneven spread of competition challenges these market definitions
  - localised infrastructure competition
  - upstream remedies effective in some locations but not others
- Ofcom recently concluded that there are local geographic markets in the UK in the provision of wholesale broadband access
- Similar proposals for some wholesale leased lines services

## The picture in the UK

### Wholesale broadband access

- LLU-based competition developing
- ...but not economically viable everywhere
- neither is competition based on alternative access infrastructure (cable)
- areas where these are viable overlap
- leads to geographic variations in competitive conditions
- ...also emergence of local pricing

### Wholesale leased lines

- no upstream remedy
- competition based solely on alternative infrastructure
- again, not economically viable everywhere
- leads to geographic variations in competitive conditions
- evidence of local pricing in the London area

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## Geographic unit

- Need to identify a geographic unit with which to conduct the analysis
  - premises
  - postcodes
  - postal sectors
  - some network element e.g. local exchange
  - administrative boundary – local authority, metropolitan areas, nation and regions
- Want to balance granularity and practicality
- Used exchange areas in wholesale broadband access – c. 5,600
  - LLU remedy
- Used postal sectors in wholesale leased lines – c. 10,000
  - not too many from a practical perspective but granular enough that should not be significant variations of competition within the unit

## Assessing homogeneity of competitive conditions

Indicator	Broadband	Leased lines
<b>Local service shares</b>	Significant variations with generally low BT shares in exchange areas where LLU	Significant variations in some markets with BT's shares lower in metropolitan areas
<b>Pricing</b>	BT discounts wholesale prices in 'dense cell' areas. LLUOs increasingly discount at retail level within footprint	BT discounts in the Central London Zone (CLZ) for some products
<b>Network reach</b>	Exchange areas where LLUOs have entered (or are expected to enter) or cable present	Concentrated in metropolitan areas, particularly central London



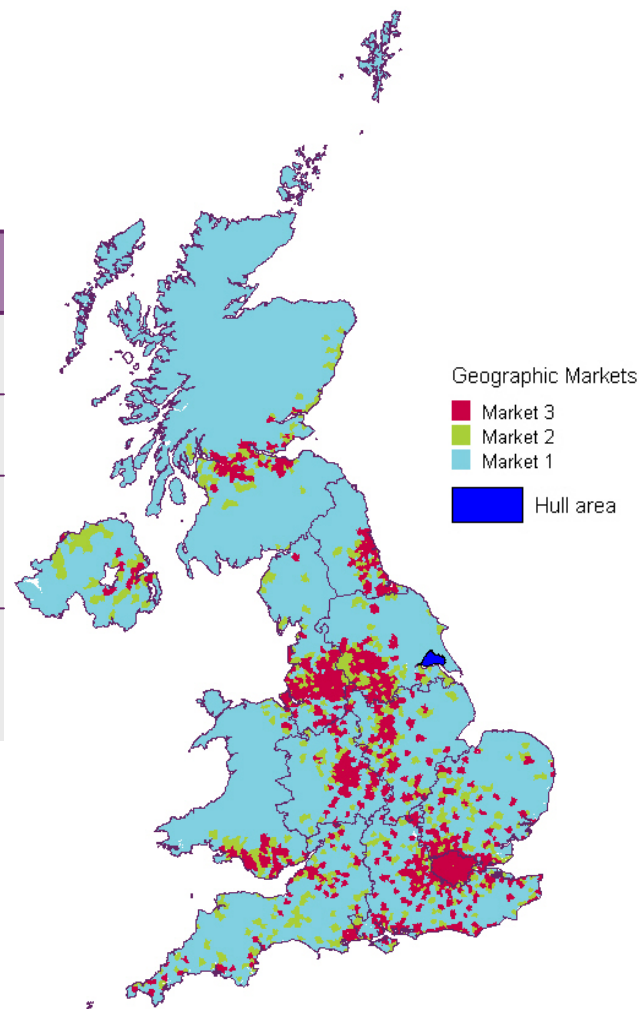
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# Geographic markets in wholesale broadband access

## Four geographic markets

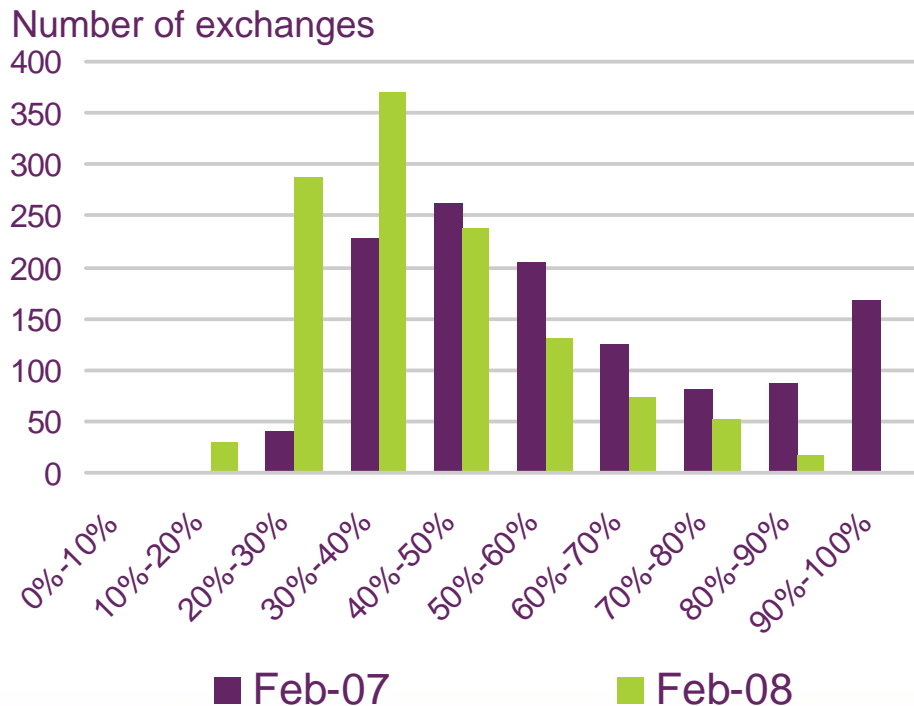
Market	No. Exchs	Coverage
The Hull area	14	0.7%
Market 1 (BT only)	3720	16.4%
Market 2 (BT plus 1 or two others)	670	13.7%
Market 3 (BT plus 3 or more others)	1197	69.2%



## Service shares in wholesale broadband access

- BT's service share lower in those exchanges included in Market 3
  - reducing over time

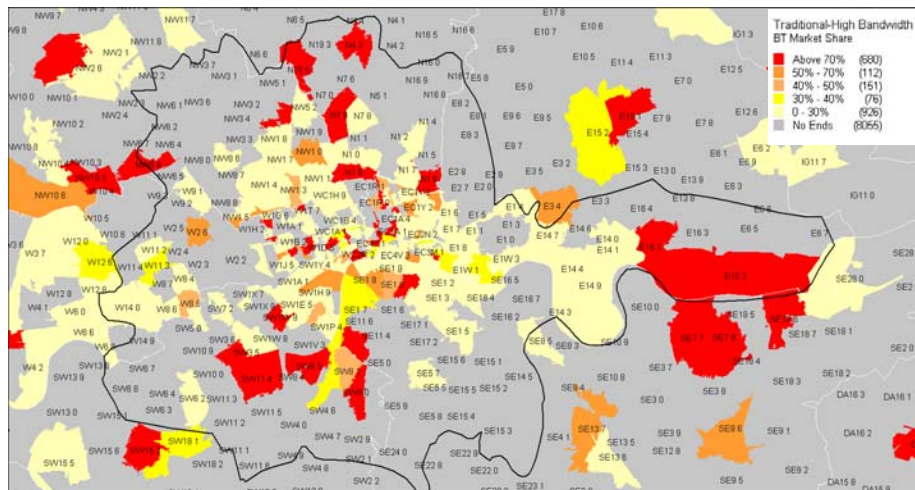
### BT's service share in Market 3 exchanges



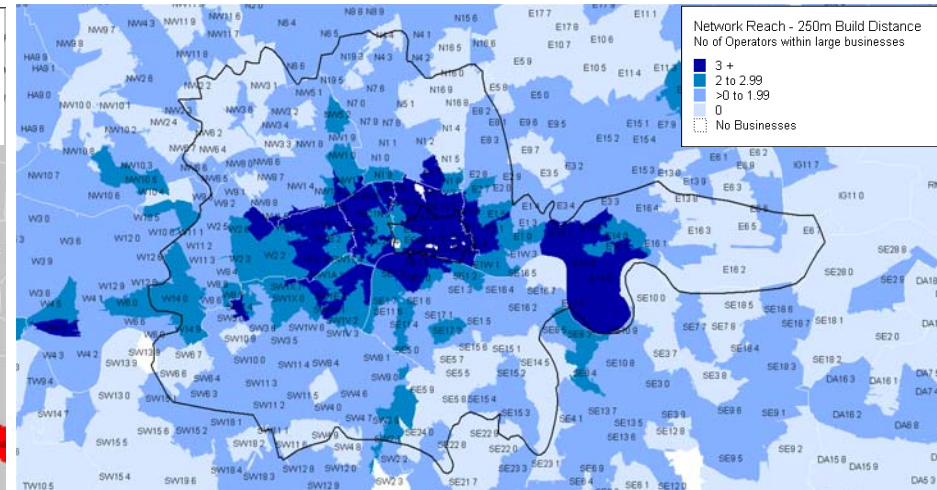
# Geographic markets in wholesale leased lines

- Evidence suggests local markets in the market for 34/45Mbit/s circuits
  - difficult to justify a national market

## BT's service share (CLZ)



## Operators' network reach (CLZ)



- Proposed to define a separate geographic market in the central and east London area (CELA)

**Questions?**