

Conceptual considerations in subnational markets

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- Treatment of self supply
- Deaveraging of prices

Treatment of self supply

The treatment of self supply is of particular relevance in a subnational market context

- Self supply is a general issue independent of the geographical scope of markets.
- With a national market definition, the treatment of self supply has not been decisive for the outcome of a market analysis (or 3-criteria test) for WBA.
- In a subnational market context, the outcome of a market analysis (or 3-criteria test) of „urban“ WBA market may critically depend on the treatment of self supply.
- The same will apply even more to ULL.
- For illustration, this presentation focuses on WBA.

Self supply of „bistream“:

1

Self supply of incumbent

2

Self supply of local loop unbundlers

3

Self supply of cable operators

NRAs shall ensure the availability of WBA so that retail broadband becomes (more) competitive

- WBA is a recommended wholesale market - Implies NRAs should assure that there is WBA (competitive or mandated) to make retail market (more) competitive.
- **Approach A:** WBA market includes externally provided WBA (commercial or mandated).
- **Approach B:** WBA market also includes self supply (SS) of operators that externally provide WBA.
- **Approach C:** WBA market also includes self supply (SS) of cable. Since the objective of the assessment of the WBA market is to ensure availability of WBA, the focus must be on the existence of externally provided WBA. – The indirect constraint from cable can only be a supporting constraint on existing providers of WBA.

Market definitions:

A

Incumbent WBA
+ unbundler WBA

B

Incumbent WBA/SS
+ unbundler WBA/SS

C

Incumbent WBA/SS
+ unbundler WBA/SS
+ cable SS

But what if WBA is not needed to make retail broadband competitive?

- Assume that retail broadband market does not fulfill the 3 criteria in the absence of WBA. Therefore no need to identify WBA for regulation. WBA not required.
- Commission requires a 3 criteria test (or market analysis) for WBA market to demonstrate that WBA is not needed.
- But how demonstrate that the 3 criteria are not fulfilled (or there is no SMP) if cable is not included in the WBA market (as in market definition A or B)?
- Moreover, a 3 criteria test (or market analysis) of the WBA market (independent of market definition) does not address the proper question: It shows whether WBA is competitively provided or not. But it does not necessarily show whether retail market absent WBA is competitive.

Market definitions:

A

Incumbent WBA
+ unbundler WBA

B

Incumbent WBA/SS
+ unbundler WBA/SS

C

Incumbent WBA/SS
+ unbundler WBA/SS
+ cable SS

A policy trade-off may emerge in a subnational market context

- „Rural“ business models may not be viable, that is, there may be no stand-alone demand for WBA in a „rural“ market.
- Competition in the „rural“ market then will not only depend on the availability of „rural“ WBA, but also on the availability of „urban“ WBA.
- **Case A:** WBA regulation is abandoned in „urban“ market, but continued to be provided as a commercial product. National business model are not jeopardised.
- **Case B:** WBA regulation is abandoned in „urban“ market and „urban“ WBA is discontinued. Difficult policy trade off: More competition in „rural“ market may have to be traded against „overregulation“ in urban market.

Deleveraging of prices

Deregulating WBA in „urban“ market should be seen as part of a broader policy decision

- Deregulating WBA in „urban“ market may lead to a deaveraging of the WBA price.
- The deaveraging of WBA price may also lead a deaveraging of ULL and retail broadband prices to avoid margin squeezes and losses on various levels in the value chain.
- Deaveraging can be conducive to economic efficiency, but may raise also transition and universal services issues.
- Whether or not defining subnational markets is therefore part of a broader policy decision.
- **Should policy determine market definition, rather than the other way round?**

Deaveraging of prices:

1

Retail broadband prices

2

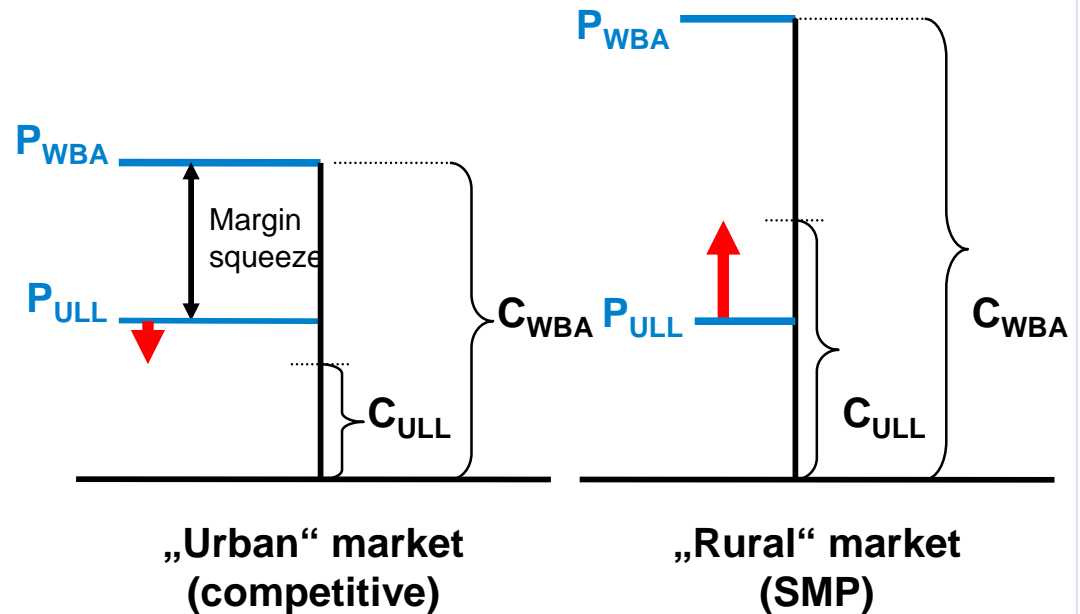
WBA prices

3

ULL prices

Deregulating WBA in „urban“ market may create a need to deaverage ULL price

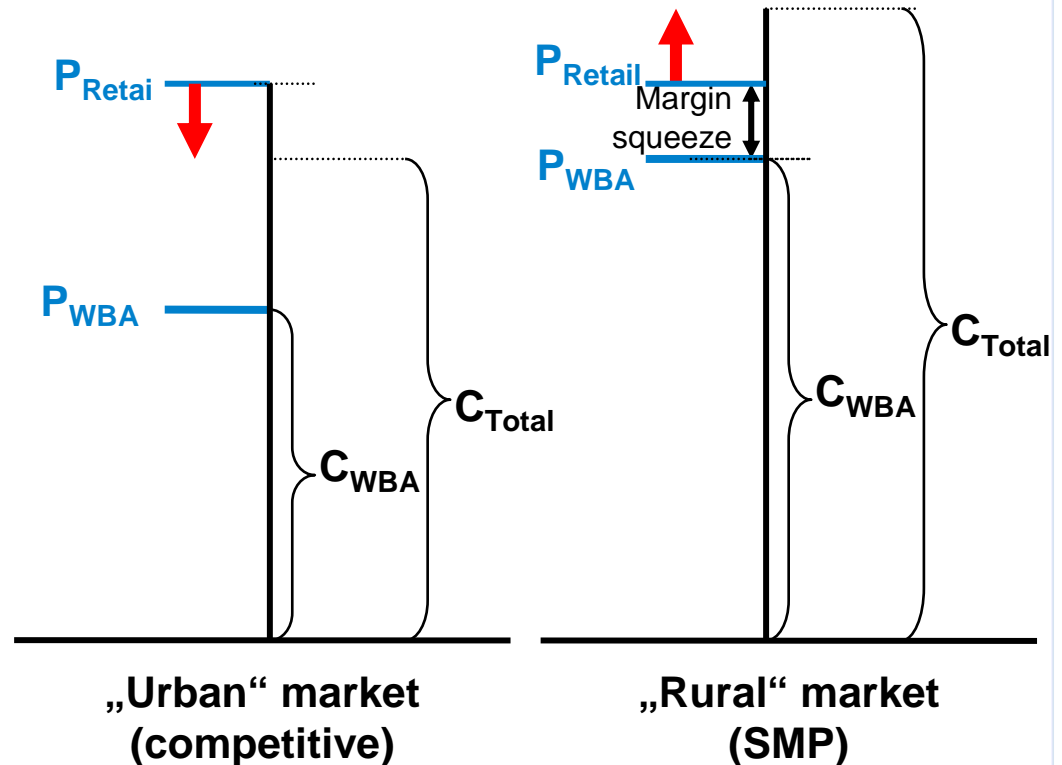
- A cost-based WBA price for „urban“ market – in the presence of a uniform ULL price – may create a margin squeeze between ULL and WBA.
- This may foreclose the WBA market to ULL-based providers of WBA.
- NRAs may need to impose a geographical deaveraging of the ULL price.



Deregulating WBA in „urban“ market may create a need to deaverage retail broadband prices

WBA price in „rural“ market set by NRA at a cost-based level:

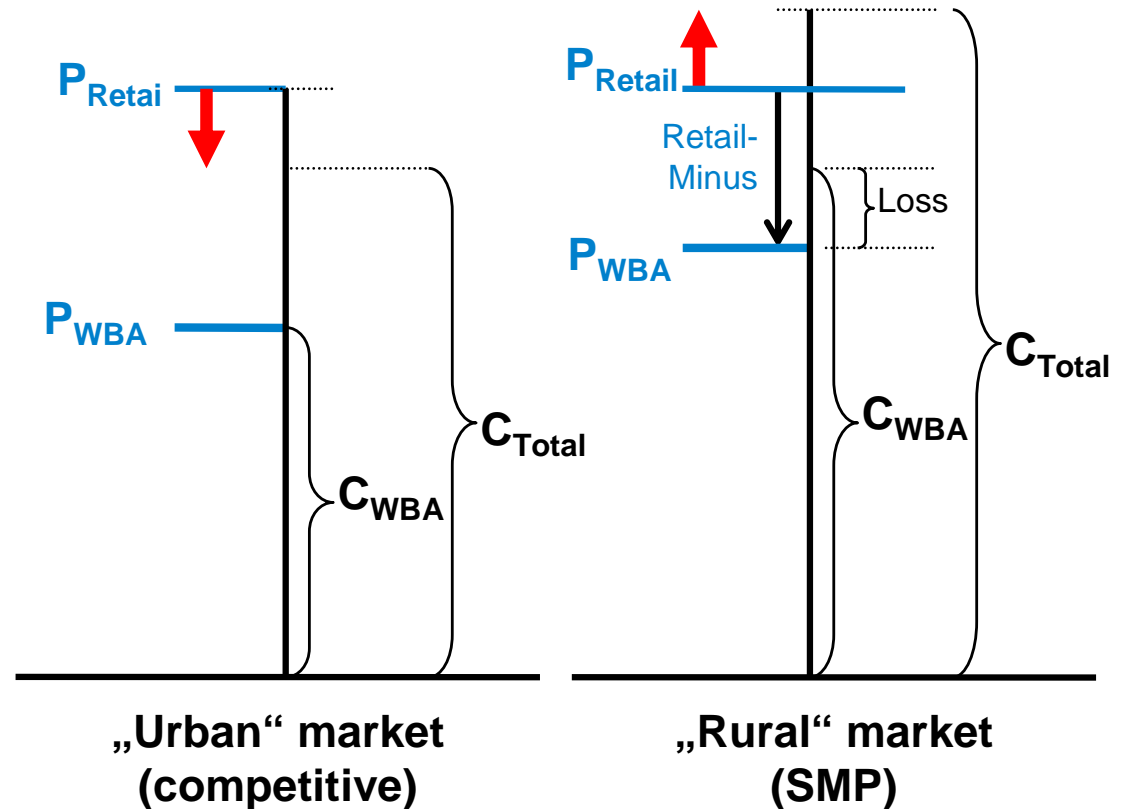
- A cost-based WBA price in „rural“ market – given a uniform retail price – may create a margin squeeze between WBA and the retail price in „rural“ market.
- This may foreclose the market to WBA-based providers of retail broadband in „rural“ market.
- NRA/NCA may need to impose deaveraging of retail price.



Deregulating WBA in „urban“ market may create a need to deaverage retail broadband prices

WBA price in „rural“ market set by NRA at a retail-minus based level:

- A retail-minus WBA price in „rural“ market - given a uniform retail price - will result in a loss for the incumbent in the provision of „rural“ WBA.
- Incumbent may want to avoid such a loss and deaverage retail price.





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