

Future regulation of Electronic Communications in the Netherlands

Ex ante regulation and its alternatives

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seo economisch onderzoek

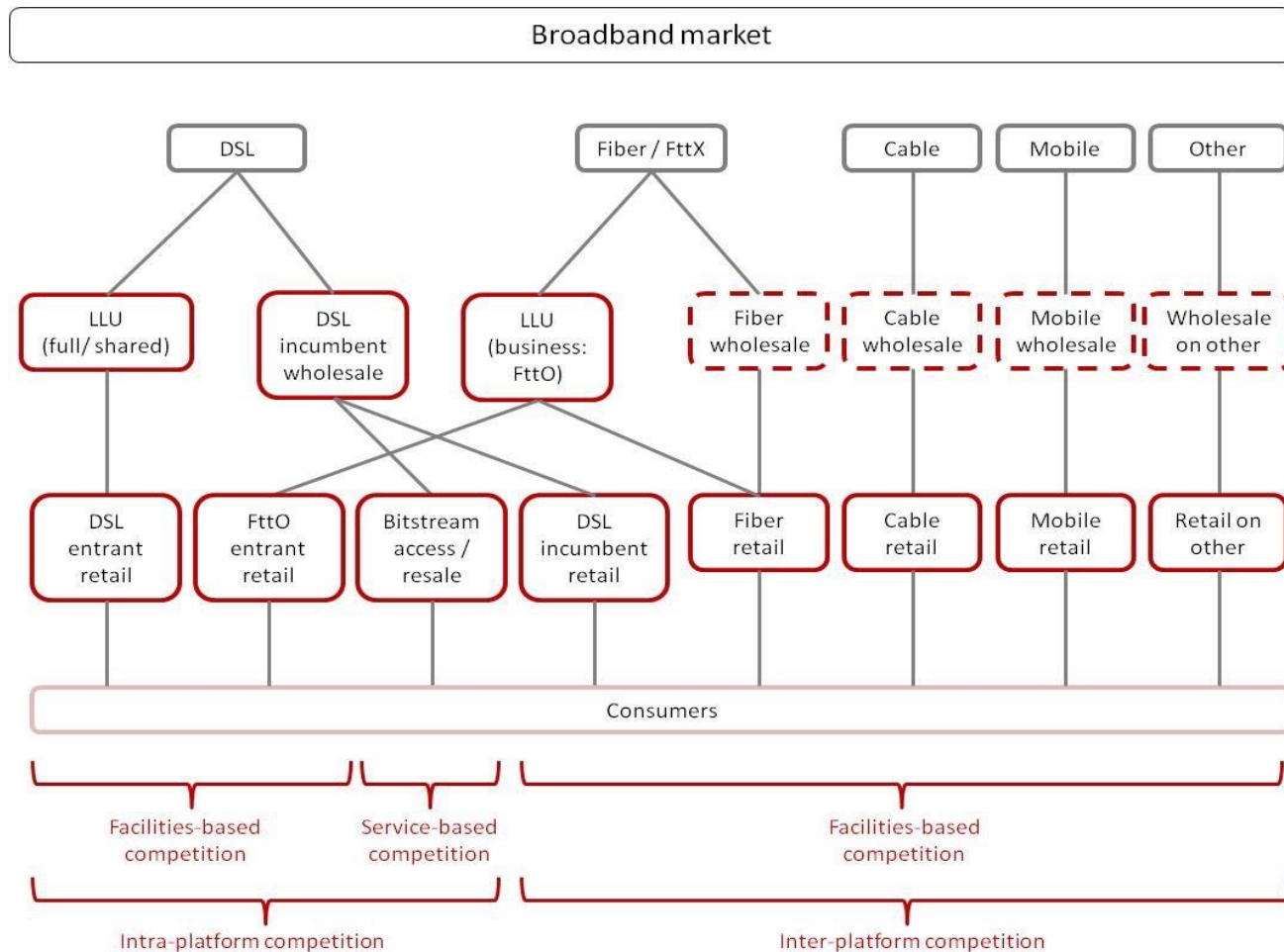


A bit of history

Wholesale access to rtv networks ('three criteria test')

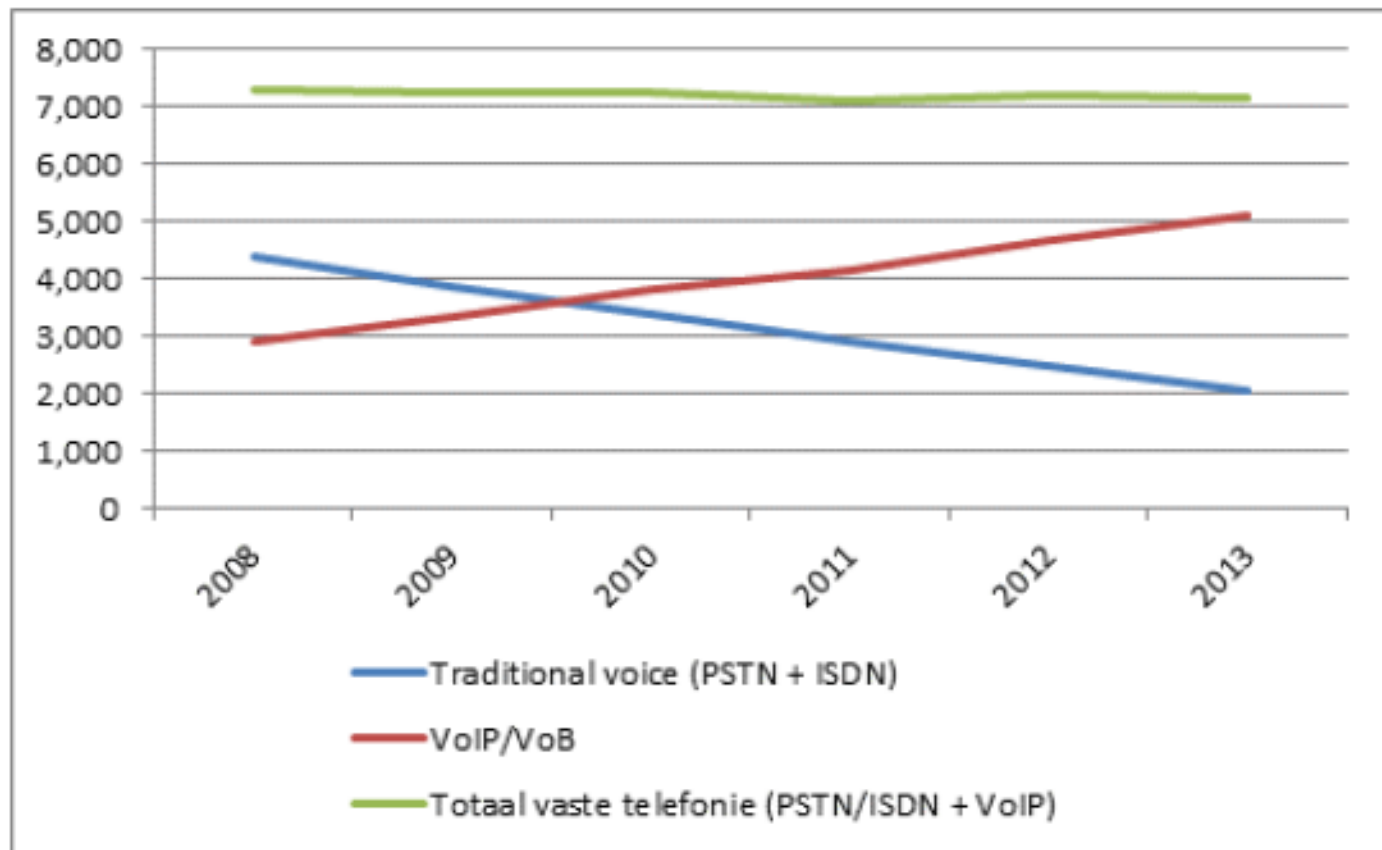
- 2009: OPTA decision to regulate cable networks
 - High barriers to entry
 - No tendency towards effective competition
- 2010: High Court reject OPTA decision
 - Geographical retail market: national rather than regional
- 2011: OPTA "judgement" no regulation needed
 - High barriers to entry but transitory
 - Tendency towards effective competition
- Future regulation ↔ competition

Market for broadband internet



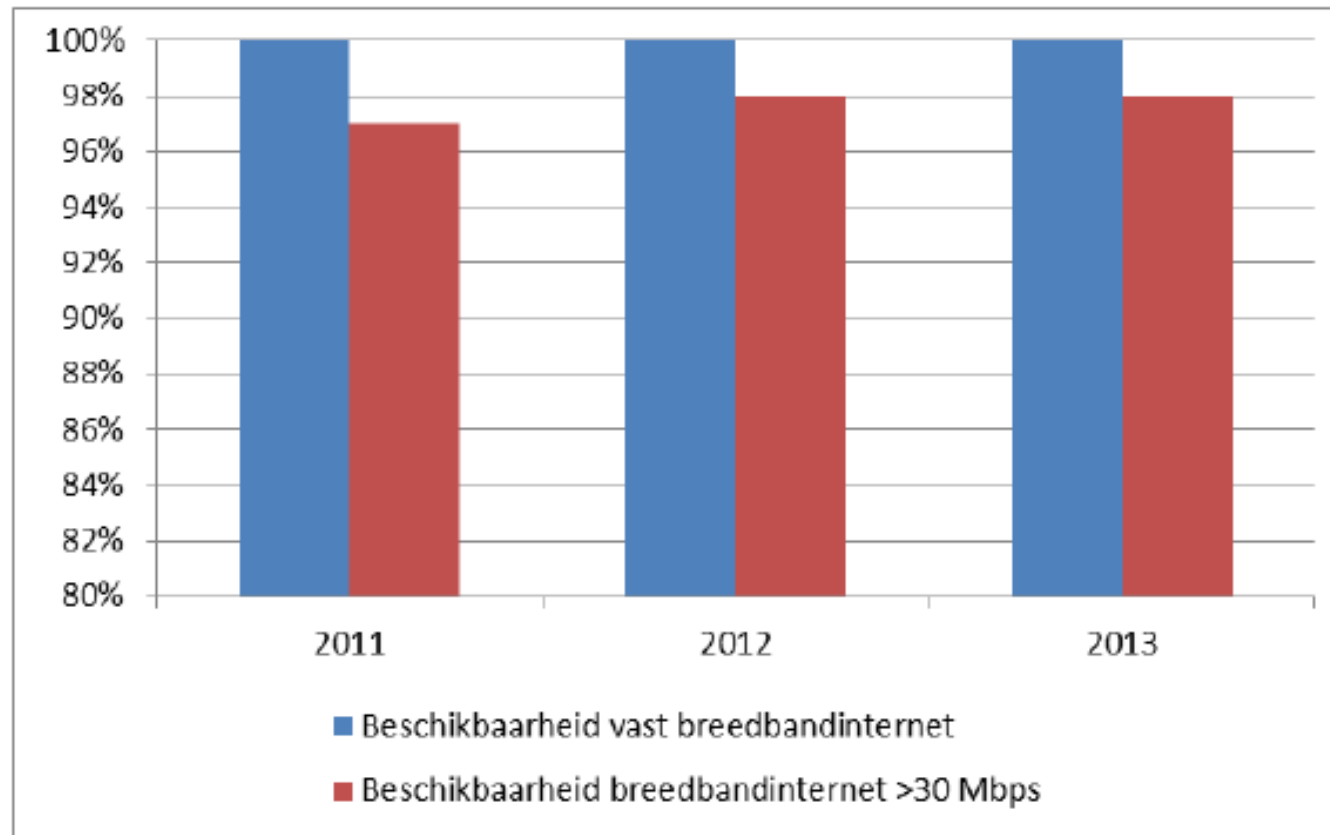
A few trends

- The demise of traditional “voice” telephony



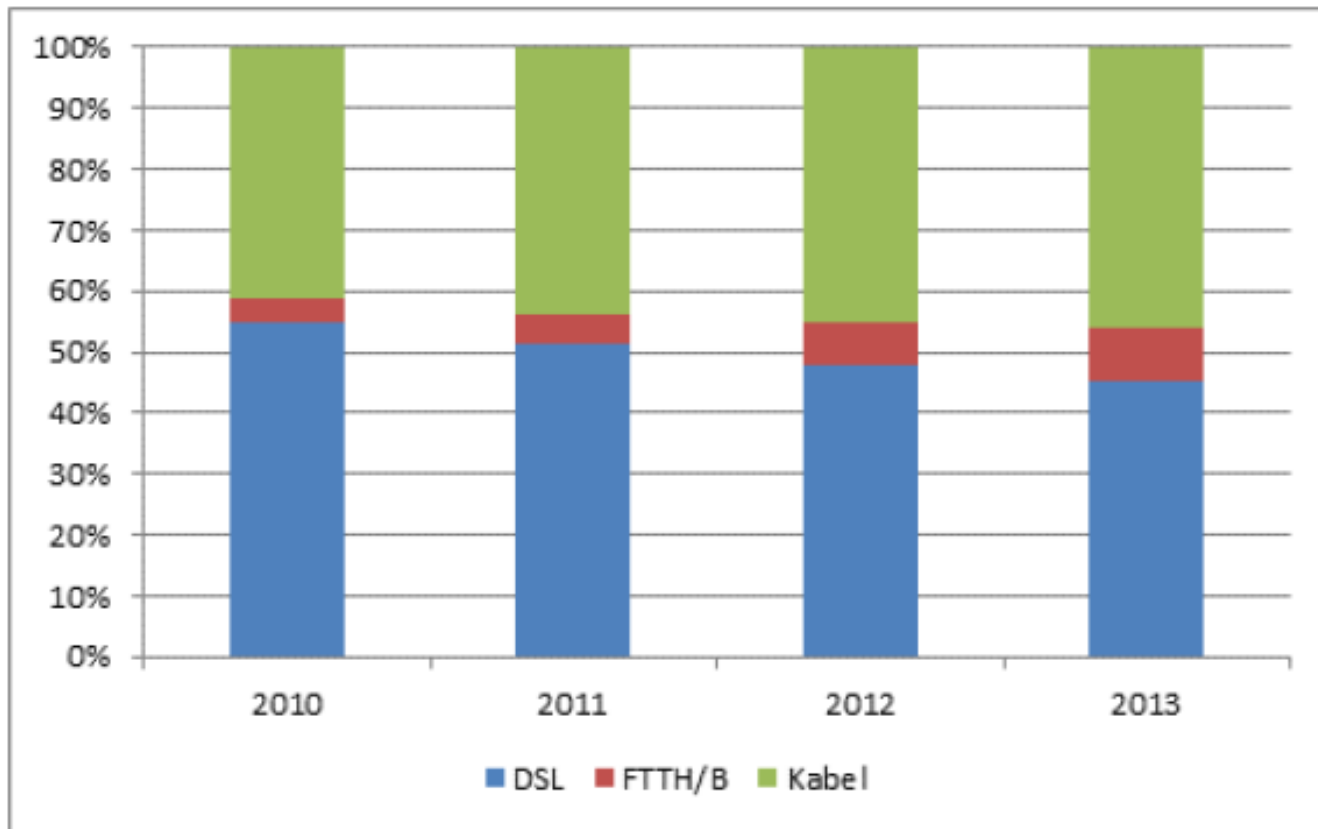
A few trends

- We all have fixed broadband internet



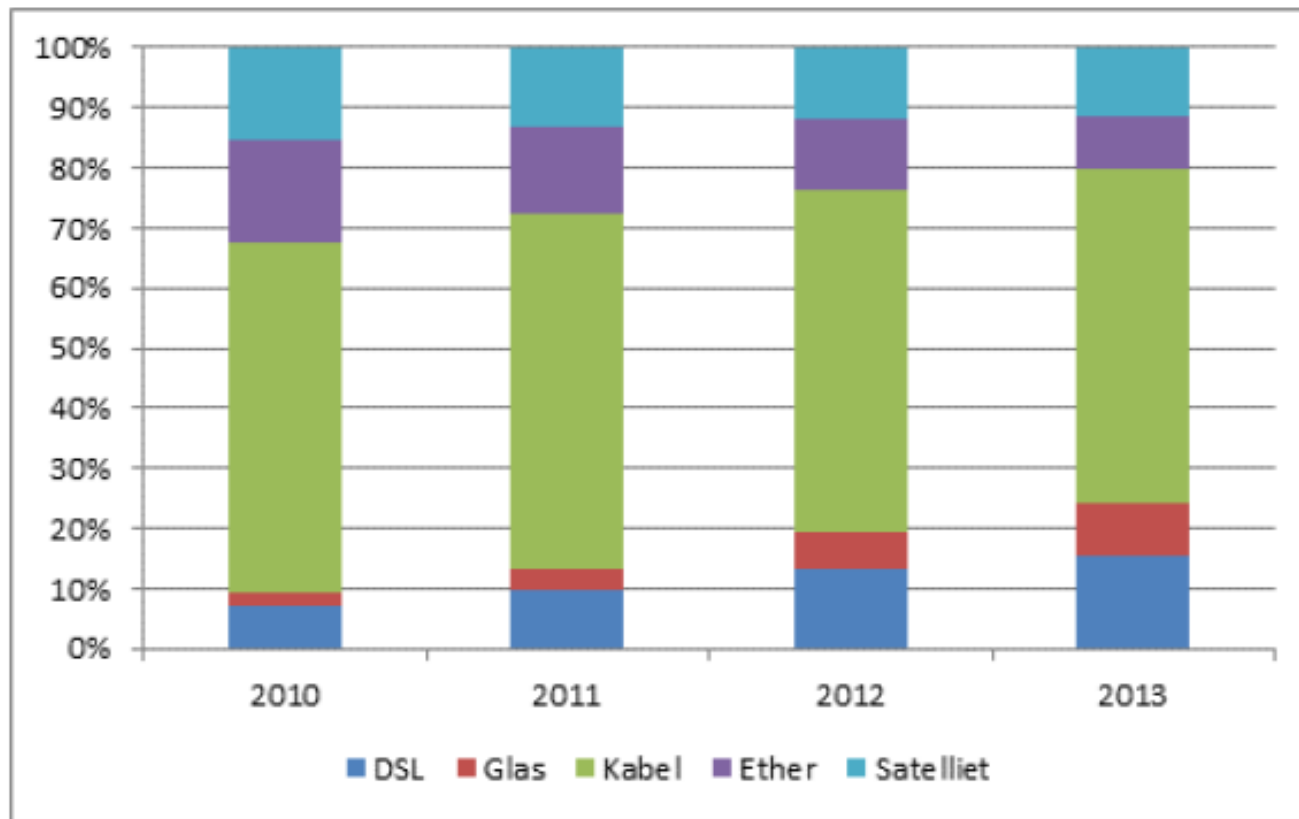
A few trends

- Cable gains market share in broadband...



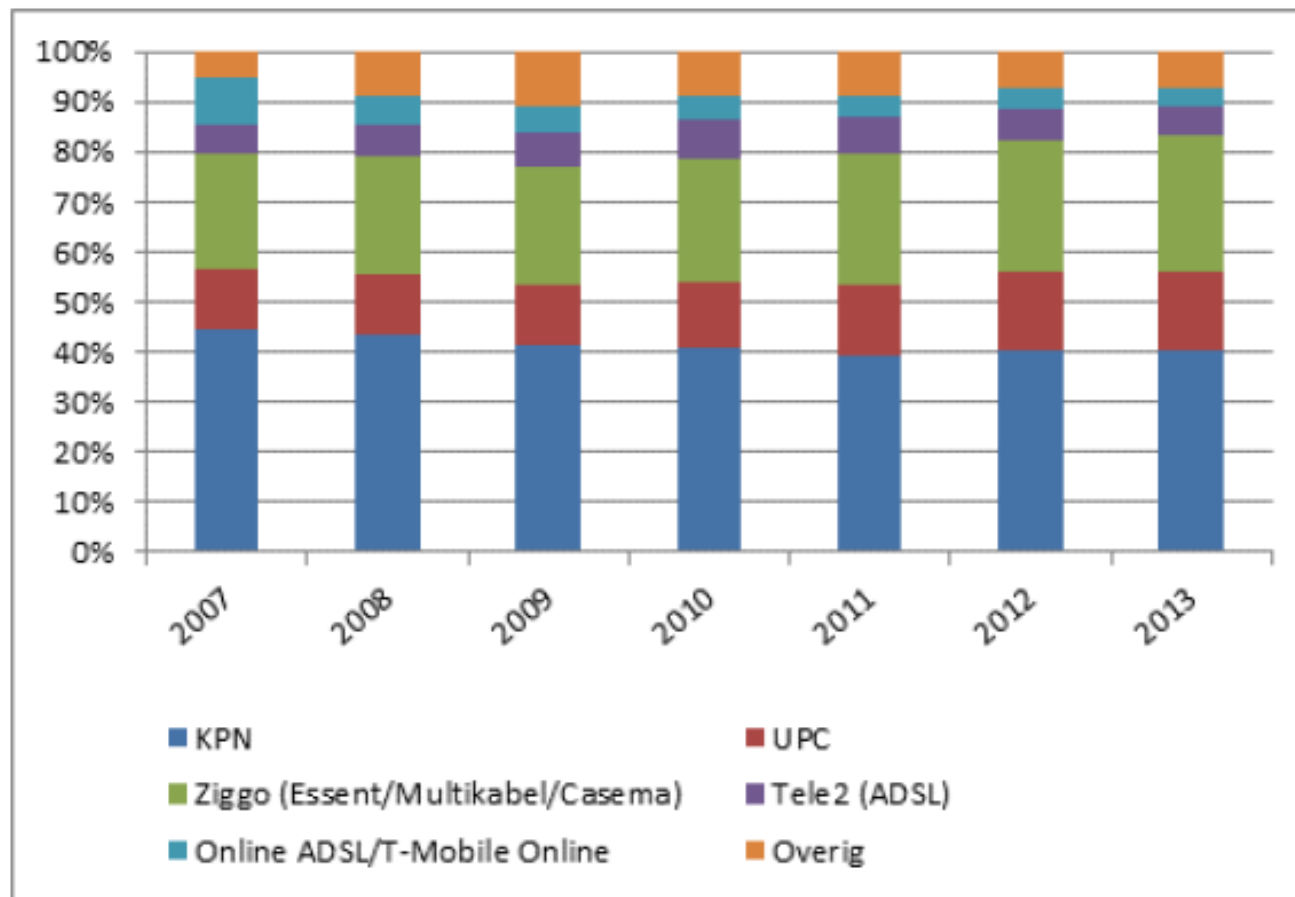
A few trends

- ...but loses ground in the television market



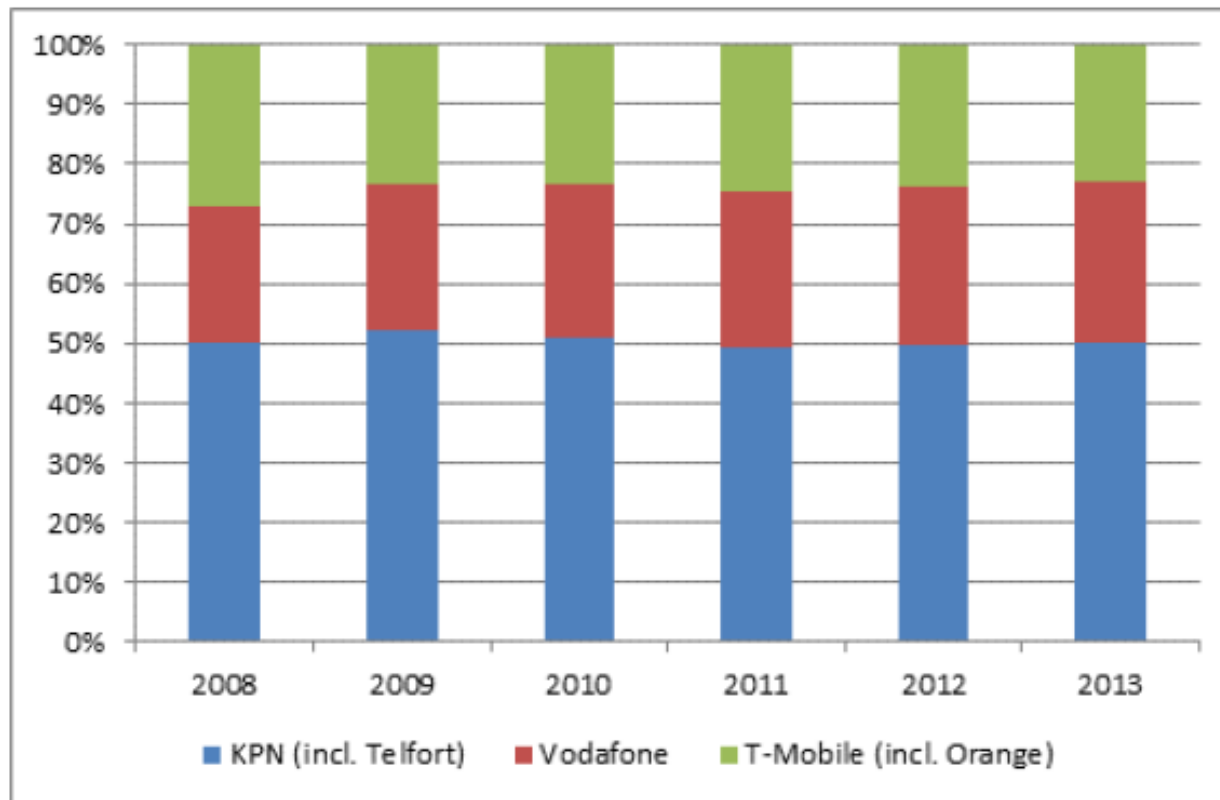
Competition

- Two main providers of broadband (HHI = 0,401)



Competition

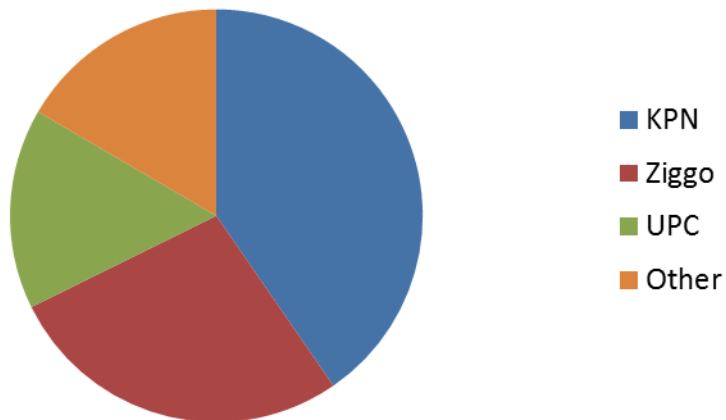
- KPN still dominates the mobile market (HHI = 0,21)



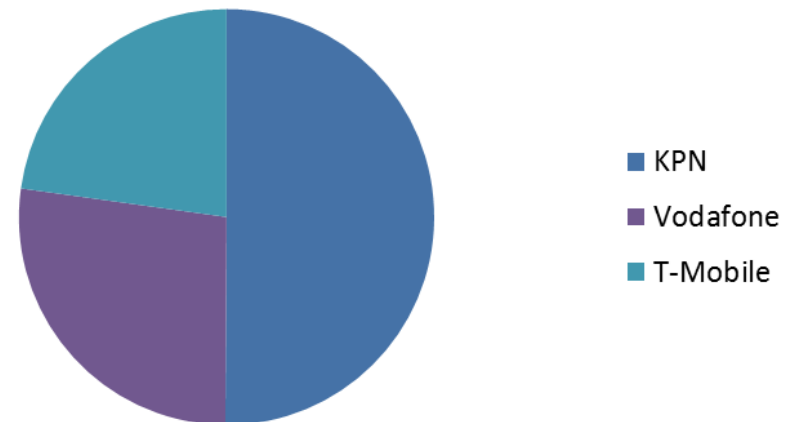
Consolidation Dutch telcos

Before the merger of Ziggo en Liberty Global (UPC)

Fixed internet



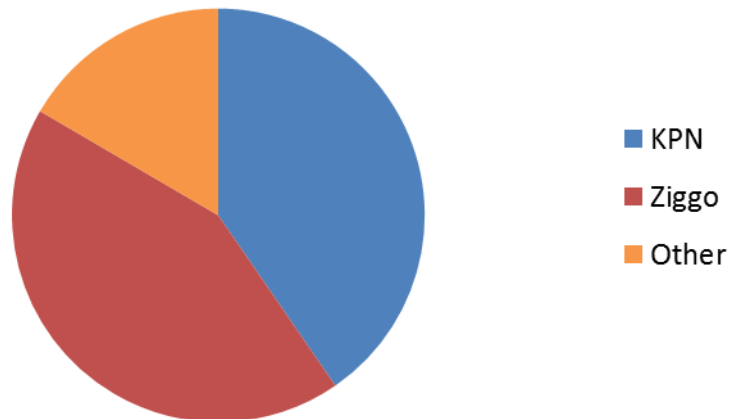
Mobile telephony & internet



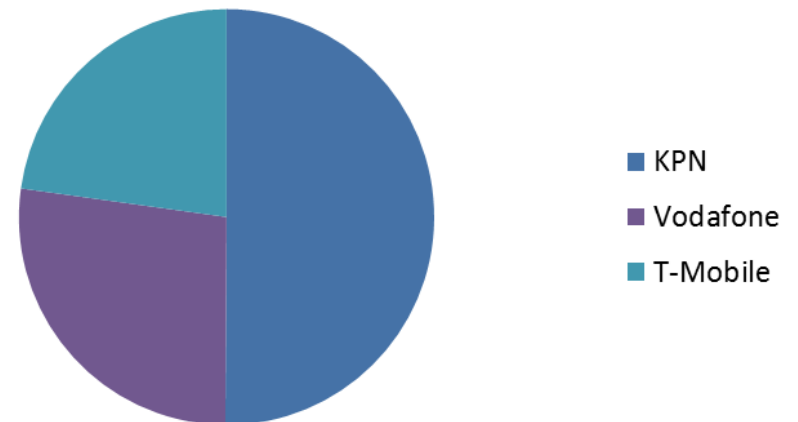
Consolidation Dutch telcos

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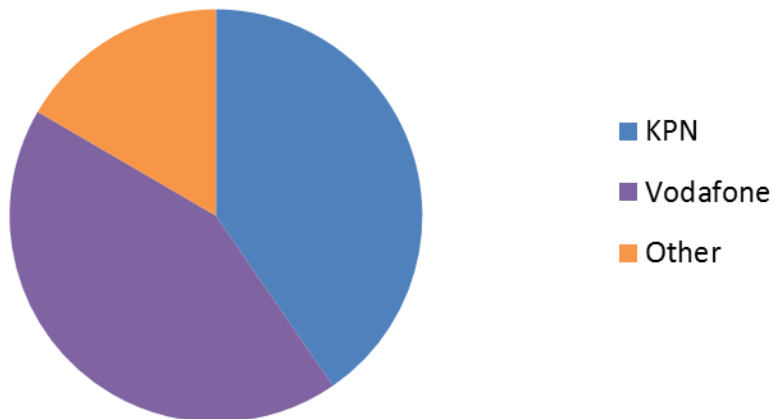
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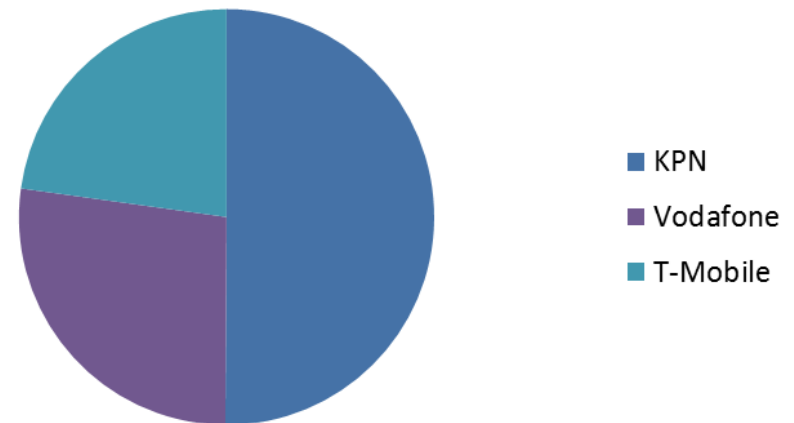
Consolidation Dutch telcos

After the potential merger of Vodafone and Liberty Global

Fixed internet



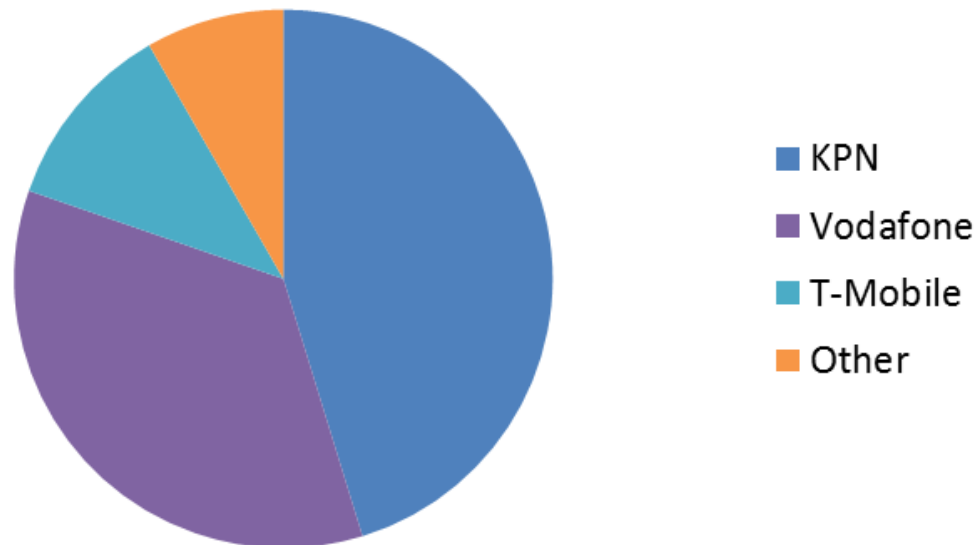
Mobile telephony & internet



Consolidation Dutch telcos

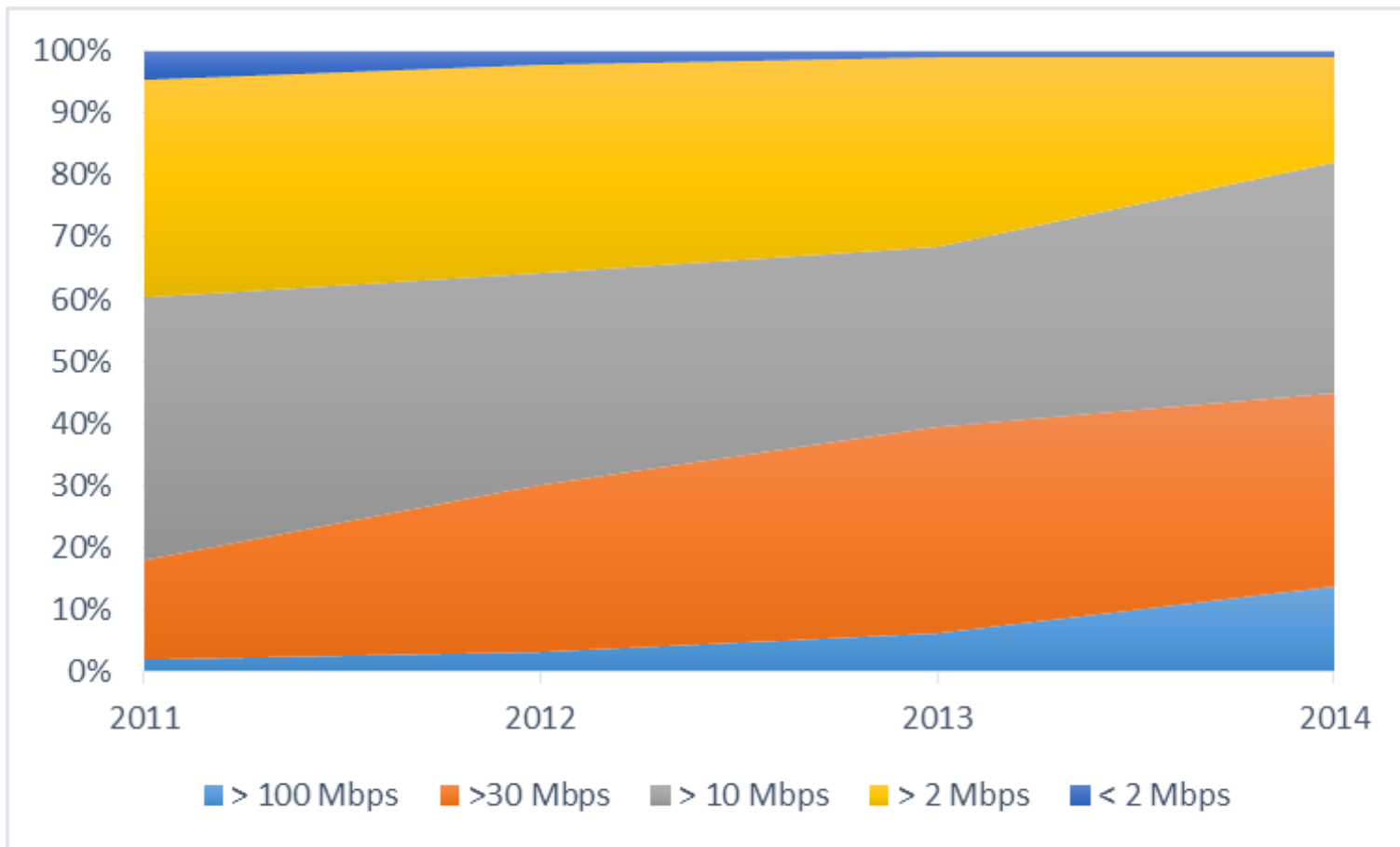
After convergence of fixed and mobile internet

Fixed & Mobile internet (50-50)



Future developments: Demand...

- Consumer demands faster internet



....and supply

- **This requires:**
 - **More capacity**
 - **New technology (DOCSIS 3.0, Vectoring, fiber)**
- **Building high speed capacity is expensive (mobile and fixed)**
- **Firms experience uncertainty**
 - **Market uncertainty**
 - **Regulatory uncertainty**
 - **Political uncertainty**
- **Scale and network effects will become more dominant**
 - **Still more concentrated markets**

Access regulation promotes competition

- **European Framework and Access directives: curtail significant market power (SMP) in the relevant wholesale markets**
 - **Forward looking cost-oriented access regulation**
 - **Ladder of investment: from services-based competition to infrastructure competition**
- **But: will Regulation 2.0 fit Telecom 3.0? (cf. Eli Noam)**

More than 10 years of experience

- Empirics: ladder of investment had little effect on and potentially even lowered investment incentives of entrants
- *Intra-platform* competition lowers investment incentives.
- *Inter-platform* competition affects investments in fiber glass according to an inverted U-shape form.
- *Inter-platform* competition increases broadband penetration more than *intra-platform* competition.

Kocsis, De Bijl, van der Noll, Tieben (2015). Reconsidering ex ante regulation in the Dutch electronic communication markets. *Communications & Strategies*, no. 98, 2nd Q.

Future regulation

- **Policy and supervision can be better focus on maximizing social welfare:**
 - ⇒ **Stimulating investments in high-speed networks and**
 - ⇒ **Adoption of access to fast networks, new services and content (OTT market).**
- **The caprice and unpredictability of market developments require more room for dynamics present in the market:**
 - **Market players can discover themselves what they need (demand side);**
 - **How they can optimally anticipate this, or respond to market demand (supply side).**
- **Static vs Dynamic Efficiency: Is two enough?**

Alternative regulatory models

Model	Level of regulation
Free wholesale price setting	Deregulation
Voluntary Open Access Model (self regulation)	Deregulation
Co-investment with negotiation: fully private or public-private-partnership	Deregulation
Negotiated access with a stick (access regulation or vertical separation) if negotiation fails	Deregulation
Differential access pricing e.g. based on fiber rollout	Regulation
Uniform prices	Regulation
Ex post competition policy	Ex post

- **Evaluation is based of the effects on static and dynamic efficiency**
- **So far mainly theoretical evidence exists**

Analysis of alternative models

- **Free wholesale price setting**
 - **UK experience since 2008**
 - Local deregulation if number of competitors for BT >4 and market share of BT $< 50\%$
 - **Empirical research: in medium term local deregulation has positive effects on infrastructure investments of both incumbent and competitors**

Analysis of alternative models

Model	Static efficiency	Dynamic Efficiency
Co-investment with negotiation, fully private	<ul style="list-style-type: none"> (+) cost reduction (+) first best for CS (-) potential tacit collusion (-) contracts can be used to avoid competition (+) lower incentives in non-price discrimination 	<ul style="list-style-type: none"> (+) risk-sharing to coop with uncertainty; it is seen as the social optimum for investments (+) increases coverage and penetration if there is demand expansion (+) decreases duplication (-/0) strong incentives for closed cooperatives (+) anticipating innovation in OTT-market (demand-side spillovers)
Negotiated access with a stick (access regulation or vertical separation) if negotiation fails	<ul style="list-style-type: none"> (+) stick is effective in preventing foreclosure (-) if further consolidation occurs, negotiation may not be effective (+) lower incentives in non-price discrimination 	<ul style="list-style-type: none"> (+) stimulates investments more than access regulation; not yet know how it relates to other models (?) effects on innovation is unknown

Reconsidering the role of access regulation

- **Differential access pricing**
 - **Theory: differentiated prices are superior**
 - **Uniform prices but differentiated costs lowers incentives to invest in fiber**
- **Symmetric vs. Asymmetric regulation**
 - **Asymmetric regulation lowers incentives in investment**
 - **Theory: symmetrical regulation provides better incentives *only* if its combined with some form of deregulation**

Conclusions

- **More room for market forces; diverse and new business models**
- **Further development of complementarity and convergence**
- **Room for development from adjacent IT sectors (cloud) and service sectors (OTT)**
- **Attention to regional differences**
- **Attention to cost differences between legacy network and NGN**
- **Growing public interest concerning privacy and security**
- **Simple and clear conditions with less intervention at a detailed level**
- **Active role of the government in areas where investment in local access networks lags behind**

Regulation vis-à-vis Competition

- “Science and Ideology”, AER 1949
- Science requires Vision
 - Preconceived idea of how the economy operates
- What is our Vision of market development in the telecom industries? → future regulation



Joseph Schumpeter (1883-1950)

Thank you for your attention!

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