

# Thoughts on "Ex post analysis of two mobile operator mergers in Austria"

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# The big picture

- Consolidation in (and between) fixed telecoms and mobile telecoms markets
  - natural monopolies...
  - ... in the form of tight oligopolies that are getting even tighter
- How to understand the nature of competition in these markets?
- What are the implications for competition policy / regulation?

# Schwarz's contribution (1)

- Empirical evaluation of effects on retail prices of two recent mergers in Austria
- Several methodological hurdles had to be crossed
  - ▶ measuring price changes over time: different baskets
  - ▶ estimating the impact of merger on prices: 3 approaches

# Schwarz's contribution (2)

- T-Mobile/tele.ring (2006)
  - ▶ 5 to 4 merger
  - ▶ result: asymmetric market shares + remaining maverick
  - ▶ effective remedies
  - ▶ decrease in prices
- H3G/Orange (2013)
  - ▶ 4 to 3 merger
  - ▶ result: symmetric market shares, no maverick left
  - ▶ less effective remedies
  - ▶ significant increase in prices

# Nevertheless

- Consumer welfare depends on:
  - price
  - quality (download speeds)
- What happened to unit prices?
  - Average revenue/Mb decreased during 2012-2014, at comparable rate as elsewhere in Europe (Frontier Economics, 2015)
- Impact of H3G/Orange merger on consumer welfare was not necessarily negative

# Nature of competition (1)

- Price competition with horizontally differentiated goods
  - ▶ partial model, providing a partial view at best
  - ▶ telecommunications services are essentially homogeneous → price discrimination + opaque prices
- Large economies of scale / infrastructure investments
  - ▶ do operators pass fixed cost savings on to consumers?
  - ▶ scope for network sharing agreements
- In mobile markets, mergers increase prices *and* levels of investments per operator (Genakos, Valletti and Verboven, 2015)

# Nature of competition (2)

- High rate of technological change
  - ▶ 3G, 4G, 5G
  - ▶ quality and speed, mobile services, F2M convergence, OTT
  - ▶ changing nature of demand and usage patterns
- Competition is dynamic
  - ▶ consumers will benefit more from stimulating dynamic efficiency than from protecting static efficiency
- Notion of Schumpeterian competition difficult to apply because of spectrum rights (entry barriers)
  - ▶ legal oligopolies



- Regulators have been pondering about "3" versus "4", while industry argued in favor of "3"...
- ... next step may be to claim that "2" works even better

# Reconciling dynamic competition with risk of too little retail competition:

1. "4" may be safe bet
2. economies of scale → network sharing?
3. voluntary MVNO access — backed by threat of access obligations
4. *homogeneity*: scrutinize differentiation strategies that make prices opaque (brand differentiation is ok though)
5. *homogeneity*: net neutrality is crucial