



European Commission

Competition

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Hypothetical on Margin Squeeze

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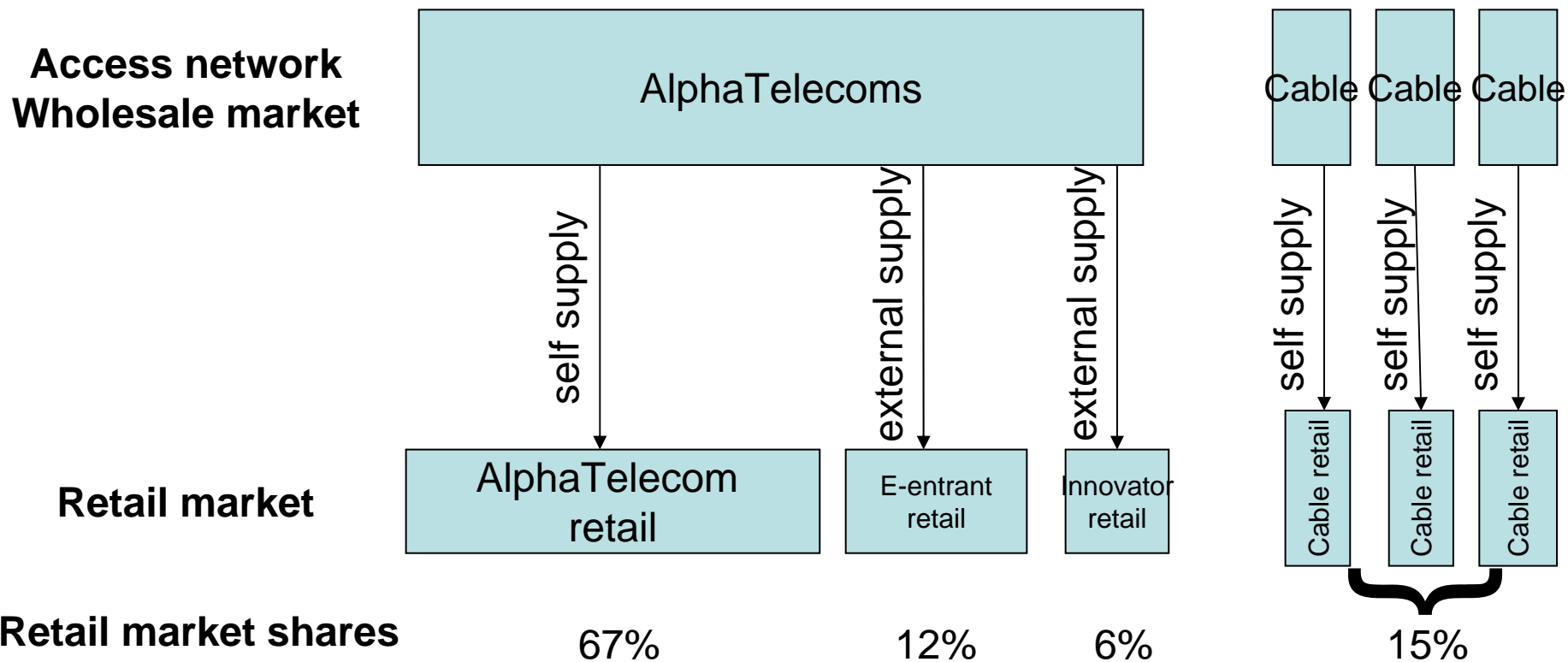


Market Players

- AlphaTelecoms
 - Incumbent, enjoyed a legal monopoly until end of 2004
 - Is the only owner of a nationwide fixed electronic communications network; offers broadband connections
- Smaller competitors
 - e-Entrant and Innovator offer broadband services based on access to AlphaTelecoms' network
 - 7 cable operators operate own networks in certain cities enabling them to offer broadband services



Broadband Market Structure 2010





Regulation Imposed on AlphaTel. by TelReg

- Obligations imposed since 1 January 2005
 - Access, interconnection, non-discrimination (inter alia) relating to voice telephony only
 - Cost accounting system: long-run incremental costs
- Access obligation valid from 1 January 2009
 - Unbundled access to the local loop; price cap based on cost estimations of AlphaTelecoms and forecasts of costs for the provision of access to the local loop
 - Note: AlphaTelecoms voluntarily provided unbundled access to the local loop from 2007 until the end of 2008



Complaint and Investigation of Highcomp (1)

- e-Entrant's complaint of 1 January 2010
 - Dominant AlphaTel. conducts margin squeeze since 2007
- Investigation results of Highcomp
 - 2007/2008: negative spread between the wholesale and retail prices of AlphaTelecoms' broadband offerings
 - 2009 - today: spread was insufficient to cover product-specific costs for providing own retail broadband services
 - Product-specific costs for retail broadband services of e-Entrant and Innovator 20% higher than AlphaTelecoms'



Investigation of Highcomp (2)

- Two e-Mails found at AlphaTelecom' offices
 - AlphaTel. knew that the regulated wholesale rate was too high since TelReg's cost accounting methodology was flawed
 - It decided to use the upper price cap set by TelReg anyway
- Promotional christmas offers in 2008/09 by the competitors had no impact on AlphaTelecoms' retail market share or price setting policy



Arguments by AlphaTelecoms (1)

- No liability until end of 2008
 - No duty to provide unbundled access to the local loop until end of 2008
- Justification for its conduct from 2009 on
 - Wholesale prices for the regulated local loop access were set in compliance with the TelReg price regulation



Arguments by AlphaTelecoms (2)

- There was no margin squeeze
 - Highcomp wrongfully allocated to broadband retail services costs common to the provision of various telecom services
 - It was normal and inevitable for its downstream division to incur losses because broadband investments need time to yield profits
- Margin squeeze had no effect on the market
 - AlphaTelecoms lost market shares to competitors
 - Cable operators do not need access to unbundled loops
 - Retail prices for broadband access have in fact decreased



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Thank you !
Have a good discussion !