Discussion of “Foreclosing Competition through Access Charges and Price Discrimination” by Angel L. Lopez and Patrick Rey

Albert Banal-Estanol
Summary

- Can incumbent network operators use access charges to foreclose new entrants?
- Foreclosure is profitable only when it keeps the entrant entirely out of the market
Setup

- An incumbent and an entrant…
  - Compete in subscription and usage fees
  - Termination-based price discrimination (network effects)
- Switching cost if choosing entrant
- Incumbent sets the (reciprocal) access charge

- Bargaining:
  - What if they had to negotiate over the access charge?
- Timing:
  - Incumbent commits to access charge (longer-term decision?)
  - Is it credible? Profitable to renegotiate ex-post
Results

- **Equilibrium market shares:**
  1. Shared market (if small termination charge and switching costs)
  2. Incumbent and/or entrant corners the market
     - If multiple: consumer inertia (choose incumbent) or activism (choose entrant)

- **Incumbent can keep entrant out of the market by…**
  - Setting large access charge mark-up:
    - If consumer inertia, even without real switching costs (here virtual ones!)
    - More limited if consumer activism, need high enough switching costs
  - Setting large access charge subsidy

- **Multiple equilibria selection:**
  - Consumer inertia or activism might depend on parameters
  - Would it be possible to find unique equilibrium by introducing asymmetric information (as in the global games setup)?
**Policy recommendations**

- Foreclosure is...
  - Not profitable without termination-based price discrimination
  - Not feasible in the receiver pays regime

- Policy recommendation:
  - Set bounds on access mark-ups
  - Reduce real switching costs may not be enough

- What about...
  - Asymmetric access pricing regulation?
  - (consumer) welfare? Wouldn’t higher charges be good for consumers (for non-monopoly markets)?
Extensions: extent of entry

Could your model be extended to explain…

- the *extent* of entry?
- the striking differences in Europe, especially with respect to Mobile Virtual Network Operators (UK, Scandinavia vs. Spain, Italy…)?

- Impact of interconnection tariffs on entry (or vice-versa)?
  - €0.117 on average in countries with significant entry (Denmark, UK, Austria, Germany, Estonia, Latvia, Luxembourg, Finland, Sweden)
  - €0.165 in those without it (Belgium, Greece, Italy, Ireland, France, Italy and Portugal) --- (2004)

- Impact of entry on usage prices
Impact of entry on usage prices

Figure 3 Change in market share of leading network operators (2001-2004) and price levels (2004-2005) of medium usage basket of mobile services

Source: (Dunnewijk, Hultén, 2006)
More on extensions

Puzzling that both prefer access subsidies post-entry

- What if…
  - Consumers also derive utility from receiving calls (Hoernig ‘07)
  - Or termination costs were different

… and non-reciprocal access prices?

- Can access charges be used to predate rivals?