Mobile Termination Regulation: Lessons for the Future - Comments

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Points of comment

• The Commission’s decision to impose M2M cap

• Areas where further academic work could help the policy debate:
  – The externality surcharge
  – Cost benefit analysis
A F2M and M2M cap?

- A surprise issue … no history of M2M being charged differently either before or after inquiry …
  - Interconnection arbitrage powerful

- If the M2M cap is unnecessary, is there any harm in imposing it?

- If the M2M issue is in fact not an issue, is the discussion in the paper redundant?
  - … directly relevant to SMS
The Externality

• Externality correction key to efficient network pricing

• Paper notes:
  – ‘It is probably also true that the benefits of … [higher] … FTM charges decline as mobile penetration levels off’ (p 28)

• But this is a key assumption …
  – What do we need to believe to think that the marginal subscriber has zero external value to a large network?
  – What is the evidence in the UK?
  – What are the social issues?
Cost Benefit Analysis

• **Assumption:**
  – ‘…the authority intervenes … imposes its preferred charge … presumably close to the welfare-maximising choice’ (p. 28)

• **But the problem is one of regulation under uncertainty**
  – Regulator invariably claims Ramsey/Externality calc not practical … = admission that regulator cannot calculate optimal price
  – So what is worse? The market price, or the imperfectly regulated price?

• **Asymmetric problem … and very suitable for modelling**
  – the welfare consequences of overestimating charge not the same as the cost of underestimating it
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