

Ex-post Merger Evaluation: H3G/Orange and Telekom Austria/Yesss!

Discussion by Francesco Decarolis

Bocconi University and
Economic Advisory Group on Competition Policy - DG Comp

Overall view

The evidence produced by the BWB study, complemented by that of the GSMA provide a detailed account of the effects of the H3G/Orange and Telekom Austria/Yesss! mergers.

Diff-in-diff design is straightforward and the synthetic control approach is adequate. Nevertheless, the magnitude of the estimated price increase varies from 20.3% to 90.2%.

The structural analysis done by BWB has the potential to be quantitatively more precise on price effects. But the results could be misleading due to the problems described below.

In summary, the advantage of structural analysis over reduced-form is the precision. However, due the simplification in aspects of changes in product characteristics and consumer heterogeneity, the results in the BWB should be interpreted carefully.

Changes in tariff characteristics (1/3)

Both studies overlooked the effect of changes in tariff characteristics and tariff availability before and after the merger.

This is especially important in this case, because there are 117 new tariffs launched during 2013, the year after the merger, which is about twice as the annual level before the merger, as shown in the Table 2, BWB.

Also, it is during the same period of time, 4G started to be widely adopted in Austria.

Changes in tariff characteristics (2/3)

First, such ignorance of changes in tariff characteristics would bias the estimated price change.

Particularly, the counter-factual cost are predicted by assuming the tariff set are the same as the pre-merger period (because it is unclear how to distribute the tariffs of the merged firm to either of the two firms if there were no merger).

However, starting in 2013, there is a significant technology improvement (4G) in telecom industry: it is thus more realistic to assume that the data usage - also the cost as well as price - would increase regardless of the merger.

Therefore, there is potentially a downward bias in predicted cost, i.e., a upward bias in price changes.

Changes in tariff characteristics (3/3)

Second, in the calculation of consumer surplus, the expected utility should generally increase with product quality, δ_j .

However, in the BWB analysis, price p_j is the only product character included in the utility, which eliminates the possibility that merged firms increases the consumer surplus by offering more preferred tariffs, even at higher prices.

Consumer heterogeneity

In the BWB analysis, all kinds of complexity involving consumer heterogeneity are excluded.

This includes potentially crucial aspects like heterogeneous price elasticity, inertia in plan choice or adverse selection.

In other words, not only the tariff set, but also the consumer set could be different with or without the merger.

Various recent academic contributions might be of help to relax these limitations.

Other factor that may influence the merger outcome

When the merger between Orange and H3G was cleared by the European Commission, it came with 2 commitments: one is facilitating entry into MNO (mobile network operator) market, the other one is facilitating entry into MVNO (mobile virtual network operator) market.

These commitments aim at balancing out the potential decrease in competition caused by the merger. However, the first one was totally muted since there are no entrants in MNO market at all, while the second one only took effect two years later.

I would suggest both analyses dive deeper into the reasons behind this phenomenon, otherwise the evaluation of the merger decision would be considered incomplete.

The frequency auction

As mentioned in CLPD analysis, the price patterns are quite different before and after the frequency auction in September, 2013 (Figure 1, CLPD).

Specifically, the prices increased only after the auction, so the stories behind are definitely worth checking.

Also, the auction outcome could be different with or without the merger.