

# Telia/Phonero

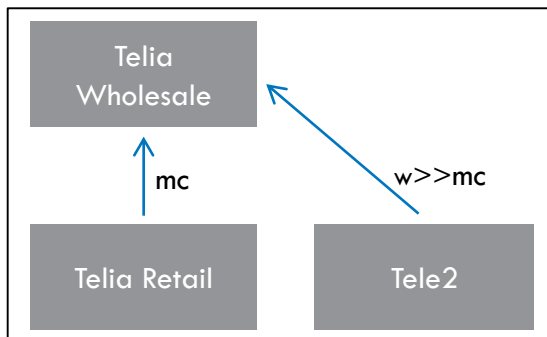
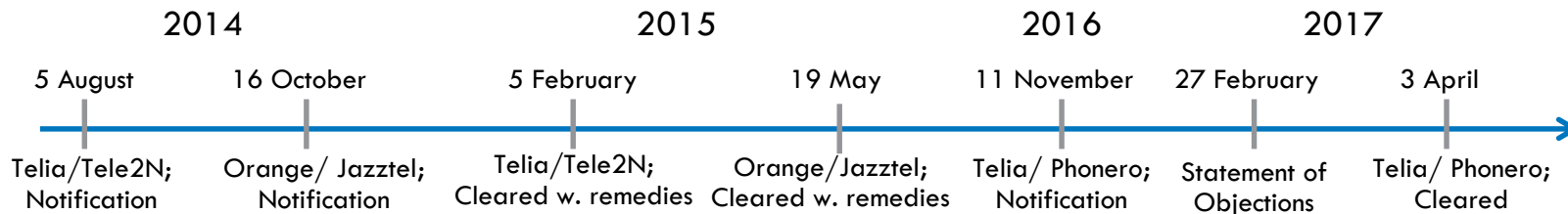
*ACE, 16 November 2017*

*Jostein Skaar*

# Telia/Phonero

- February 2017 – Statement of Objections
  - «We fear that Telia’s acquisition of Phonero will imply reduced competition in the business segment. Reduced competition will increase costs for Norwegian companies who demand mobile services» *(Norwegian Competition Authority’s home page)*
- March 2017 – Article in Dagens Næringsliv – managing director of Telia Norway
  - «Phonero’s customers annually pay MNOK 375 [ $\approx$ MEUR 40] in national roaming fees to Telenor (...) If Telia is allowed to take over Phonero, we can save the customers for large sums (...) Oslo Economics has looked at the effects if this transaction is allowed. They are crystal clear in their report. The effect is increased competition and lower prices.»
- April 2017 – Decision clearing the merger
  - «The competition authority has, following the parties response and additional considerations, concluded that Phonero post-transaction will have reduced costs that will benefit customers.» *(Norwegian Competition Authority’s home page)*

# Horizontal mergers with vertical aspects in telecom



The PP-test by Hausman et al. (2011) does not handle partly internalized competition pre-merger (vertical relationships)

Oslo Economics adjusted the PP-formula in order to account for the relevant effects in the TSN/Tele2-case – presented at ACE in 2015

# Asphjell et al. (2017) in Review of Industrial Organization

## Abstract

If one firm buys inputs from a competitor, the input price may be used to internalize the competition between the firms. Thus, positive unilateral pricing effects may arise if one firm starts to buy inputs from a competitor. Conversely, unilateral pricing effects may be small if two firms with vertical relations merge, as pre-merger competition is partly internalized through the input price. We present a method for adjusting the formula of Hausman et al. (Econ Lett 111 (2):119–121, [2011](#)), in order to predict correct unilateral pricing effects not only for horizontal mergers, but also for structural changes in markets where one firm sells inputs to a rival.

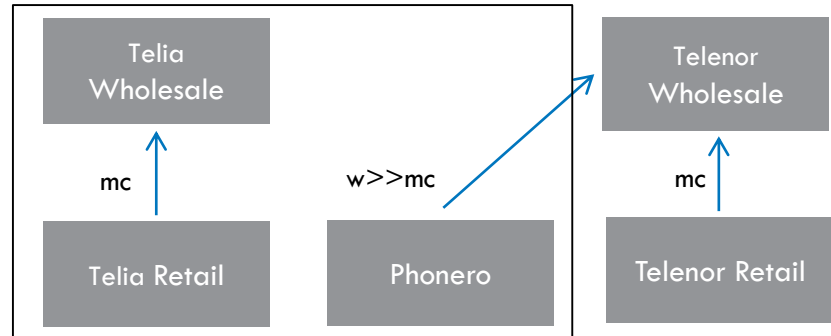
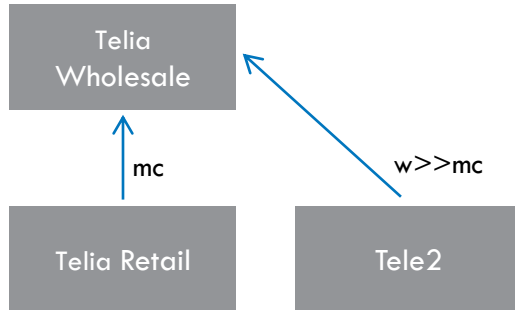
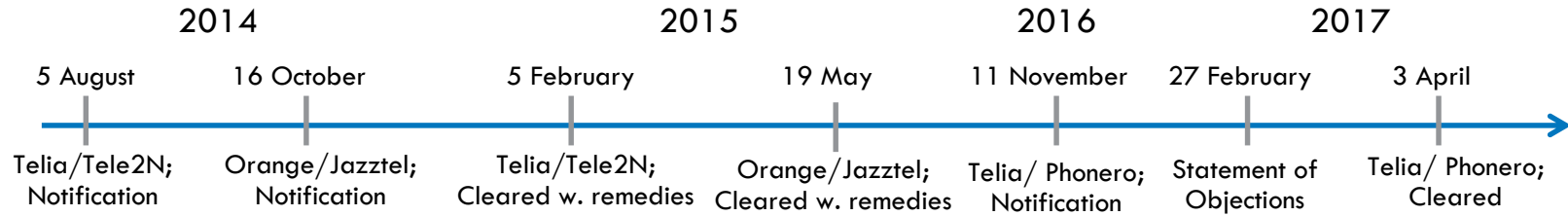
## Keywords

Merger analysis

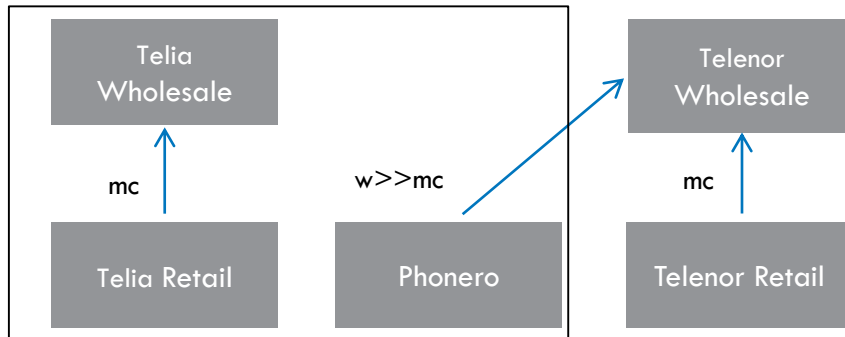
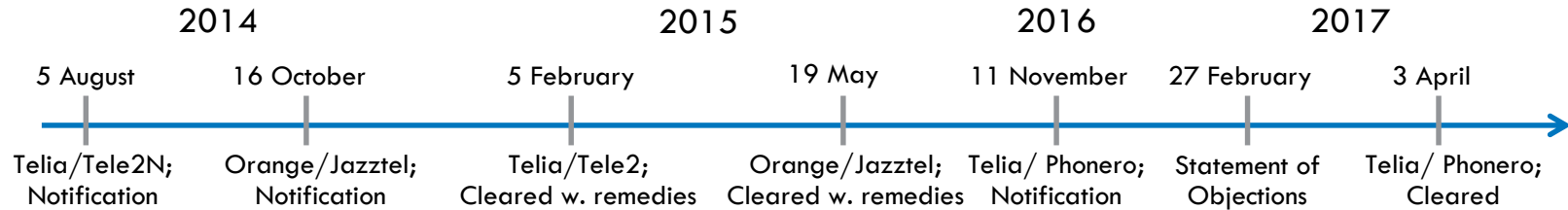
Unilateral effects

Vertical restrictions

# Horizontal mergers with vertical aspects in telecom



# Horizontal mergers with vertical aspects in telecom



The notification included PP-tests performed by Oslo Economics

The Statement of Objections included UPP- and PP-tests – deviated from our results

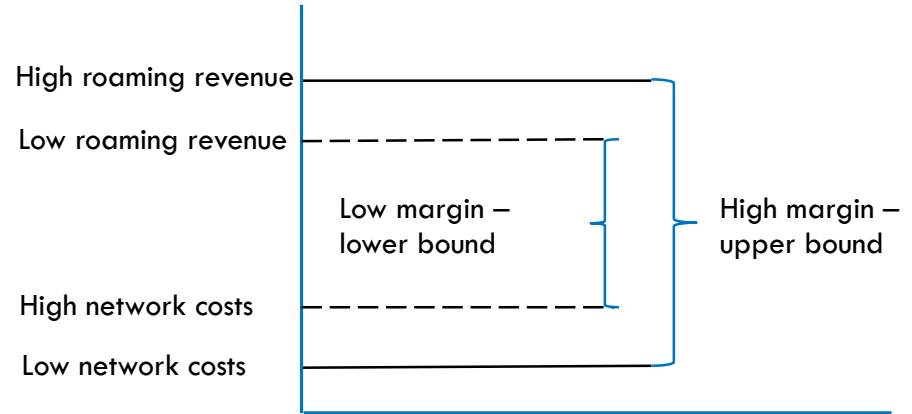
Oslo Economics commented on these the PP-tests in two meetings (16 and 24 March)

## What if we «accept» the Authority's over-estimated margins before the transaction?

- Starting point: PP-results in the Statement of Objections based on input data, margins and model assumptions made by the Authority
  - *(But not accepted by the parties)*
- We illustrated the effects on the PP-results (*including cost reductions*) related to:
  - Consistent treatment of network cost and correct modelling of Telia's wholesale activity
  - Realistic level of variable network costs – Telia (acquiring Phonero)
  - Extending the analysis to include Telenor's response
- All other assumptions and data is exactly the same as in the Authority's analysis

# The NCA used revenues and network-costs reported by Telenor

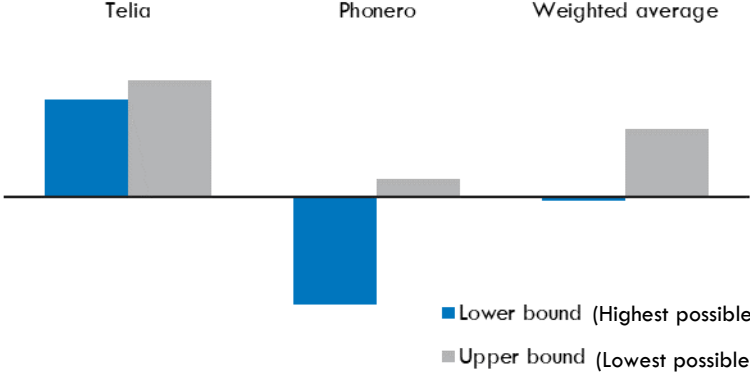
- Confidential information
- The NCA provided intervals for Telenor's revenues and network costs, implicit an interval for Telenor's wholesale margin
- The actual PP-results somewhere within an interval – between lower and upper bound



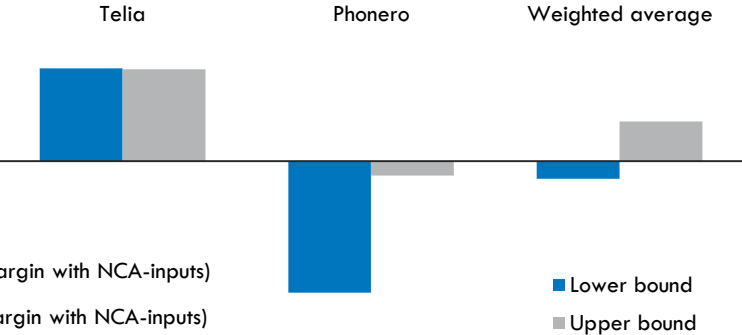


# Correct and consistent modelling reduces the price pressure

The Authority – PP-results in the SO



Same data and other assumptions, but;  
 + Consistent treatment of network costs  
 + Correct modelling of Telia’s wholesale activities

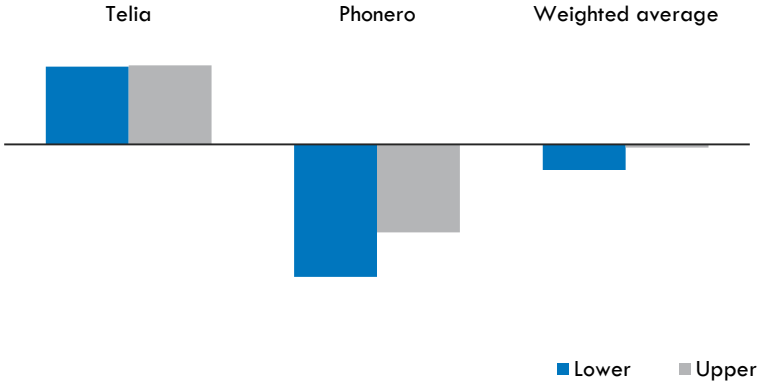
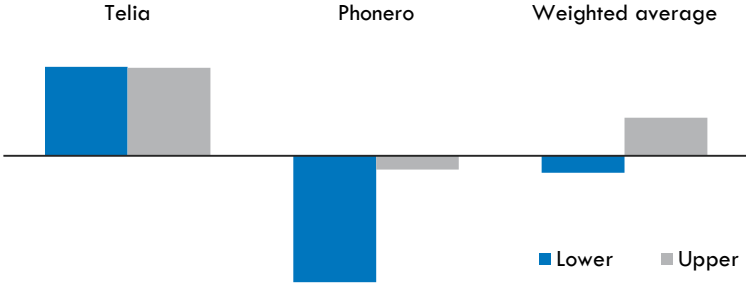


# Negative pricing pressure also in «upper bound» with more realistic network costs

Same data and other assumptions, and;

- Consistent treatment of network costs
- Correct modelling of Telia's wholesale activities

- + Realistic level of variable network costs – Telia (acquiring Phonero)

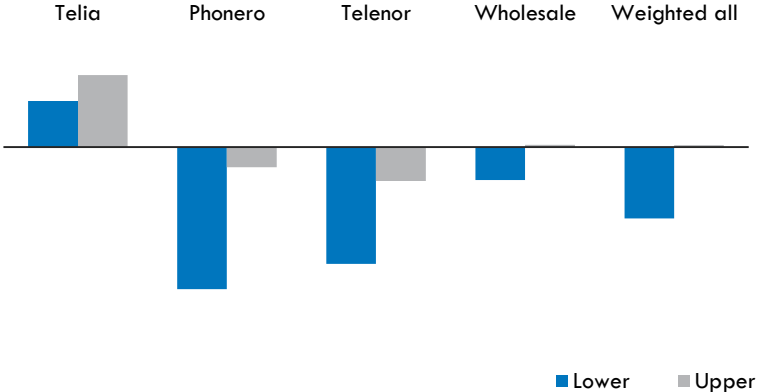
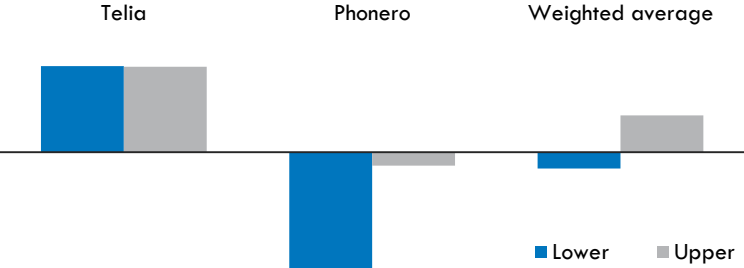


# Large effect of including Telenor – even with the Authority’s network costs

Same data and other assumptions, but;

- Consistent treatment of network costs
- Correct modelling of Telia’s wholesale activities

- + Outside response (Telenor loses Phonero as a wholesale customer)
- No other changes

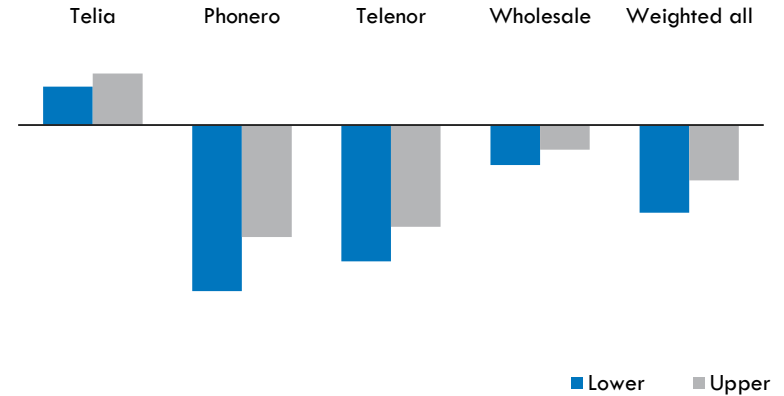
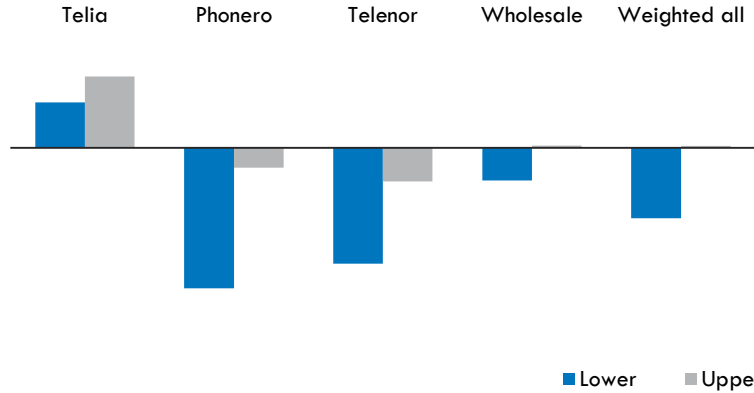


# With realistic network costs: A strong negative pricing pressure

Same data and other assumptions, but;

- Consistent treatment of network costs
- Correct modelling of Telia's wholesale activities
- Response (Telenor)

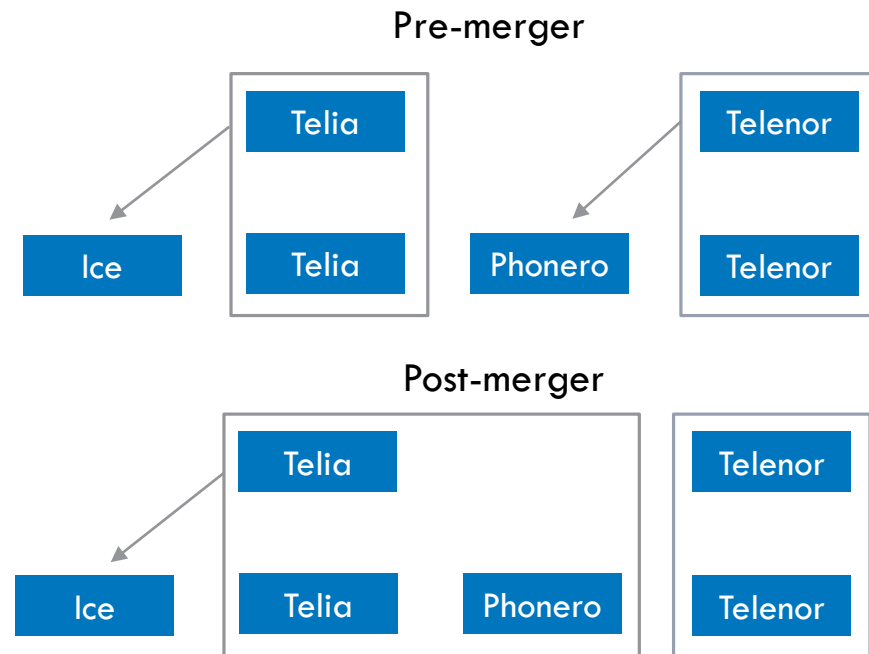
- + Realistic level of variable network costs – Telia (acquiring Phonero)



# A General Model to Assess Unilateral Price Effects of Horizontal Mergers with Vertical Relations (working paper)

Presented at EALE London, 16 September 2017

- We develop a tool to assess unilateral effects of mergers involving changes in vertical relations in an  $n$  product market
- Price effect can be severely over- or understated if effects on vertical ties are not accounted for
  - Changes in incentives for non-merging firms can be substantial
- Other use of the model: Numerically assess price effect of proposed remedies
  - E.g. reduction in wholesale prices to counteract anti-competitive effects



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