

# Fixed-Mobile Substitution in Telecommunications: A Comparative Analysis of the Recent Turkish Experience



Fuat OĞUZ  
Erman BENLİ

4th Conference on the Regulation of Infrastructures: Regulating  
Network Industries in Emerging Countries  
FLORENCE 12.6.2015

# Contents

- ❑ Introduction
- ❑ Bottleneck Monopoly and Market Definition
- ❑ Stylized Facts
- ❑ FMS in Europe
- ❑ The Turkish Experience
- ❑ Assessment

# Introduction

- ❑ FMS has had significant impacts on regulatory governance and market definition for the last decade.
  
- ❑ FMS is a fact of economic life. It changes the market structure in telecommunications markets. Regulators react slowly to this change and tend to take a conservative attitude toward FMS. The regulators' suspicions on FMS create a gap between economic and legal rights of market participant.
  - E.g., fixed operators and mobile operators compete for the same consumer base; but, face different regulatory rules. They compete in the same market with different rules.
  
- ❑ FMS opens doors to the possibility of a single market of mobile and fixed networks.
  
- ❑ The existence of FMS is necessary but not sufficient to change rules to establish a competitive telecommunications markets. We believe that the reality of FMS should encourage NRAs to define fixed and mobile technologies as a single market.

# Bottleneck Monopoly and Market Definition

- ❑ The discrepancy between the economic facts of the market and the regulatory framework encourages rent-seeking activities (Barzel, 1997). If both fixed and mobile operators compete for the same customer base, asymmetric regulation would favor less regulated firms.
- ❑ FMS in voice and broadband at retail level weakens the explanatory power of the bottleneck monopoly approach at wholesale level. The current regulatory framework is based on the natural monopoly theory. As a result of FMS, this view has become absolute.
- ❑ When the market is defined according to the natural monopoly theory, incumbents in Turkey and Europe seem to have a bottleneck monopoly on the fixed line infrastructure.
- ❑ FMS requires to make wider definition of relevant market.

## Stylized Facts

- ❑ As markets evolve and saturate, substitution becomes dominant.  
(Gideon and Gabel, 2011; Grzybowski, 2012)
- ❑ Substitution is not transitory but redefines the telecommunications markets.  
(Briglauer et al., 2011; Grzybowski, 2012)
- ❑ Substitution is self-enforcing.  
(Vogelsang, 2010)
- ❑ Overregulation increases social costs.  
(Barth and Heimeshoff, 2012)

# FMS in Europe

- ❑ The general attitude toward FMS in Europe is the policy of 'wait and see'. The EC and NRAs tend to be reluctant about the necessity of taking action.
- ❑ The legal definitions of the markets in Europe reflect the old way of thinking about telecommunications services.
- ❑ EU Directives and Recommendations are not designed to endorse FMS as they reflect the theory of natural monopoly and ignore the nascent substitution between mobile and fixed line services.
- ❑ European Commission and most of the member states still hold the natural monopoly view about the fixed-line services.

EC 2007 Recommendation lists 7 markets; BEREC (2011: 24)

«Although NRAs frequently question fixed-mobile service integration, it is quite rare that they conclude that fixed and mobile services are in the same market: Only RTR (Austria) has defined two retail markets integrating fixed and mobile services (national calls for residential users and broadband access for residential users)»

- ❑ Recently, some European countries have tried to take steps toward a single market for fixed-line and mobile services.
  - ❑ FICORA
  - ❑ TKK/RTR
  - ❑ CTU

## The Turkish Experience (voice)

- ❑ FMS is the market reality in Turkey as well.
- ❑ ICTA (Information and Communications Technologies Authority) had not accepted FMS until last year. In 2014, it conducted a survey on a number of issues in telecommunications including FMS.
- ❑ The survey signaled the existence of FMS in voice. As a result, ICTA deregulated fixed voice at retail level in its third round of market analysis.
- ❑ ICTA nonetheless does not endorse to define mobile and fixed voice as a single market. In this way, it ignores the connection between FMS and market definition. This approach causes an inconsistency between economic and legal rights and encourages operators to lobby for wealth transfers.
- ❑ If ICTA endorses the single voice market, any operators including the fixed-line incumbent would not be an SMP operator or dominant undertaking.
- ❑ FMS shows the competitive structure of single voice market.
- ❑ TCA (Turkish Competition Authority) does not accept FMS in any of its investigations.

## The Turkish Experience (broadband)

- ❑ ICTA does not accept FMS in broadband according to the survey in opposition to the voice.
- ❑ ICTA does not define or regulate fixed and mobile broadband internet services at retail level; but, this does not mean that ICTA accepts fixed and mobile broadband markets as a single market. The reason for deregulation of broadband services does not depend upon the reality of FMS.
- ❑ ICTA's controversial point of view for the voice market exists for FMS in broadband as well.
- ❑ TCA also rejects FMS and single broadband market in its market definition analyses.

## Assessment

- ❑ The European competition and regulation policy aims to advance the welfare of competitors rather than consumers' welfare. The EU regulatory and competition framework ensures whether «a specified number of firms will profitably populate a market» (Amicus Brief of Linkline, 2008: 5).
- ❑ Joaquín Almunia, who was the Commission Vice President in charge of competition policy, stated the EU competition policy in his speech for the Deutsche Telekom case
  - ❑ «The judgment is good news for consumers and for the economy in general as effective competition in the crucial network industries such as telecoms or energy translates not only in more choice and ultimately lower prices but also more growth and jobs.»
- ❑ The reason behind this view and policy come from the Ordoliberal insight of the EU documents and practices (Oğuz, 2015: 7).
- ❑ The rejection of FMS in broadband and the lack of making connection between FMS and market definition in voice open doors to the ICTA's regulatory intervention to the markets. It causes strictly a wealth transfer.
- ❑ TCA's anti-FMS market definitions leads to «the Potemkin village of managed competition» as mentioned in the Amicus Brief of Linkline case for the European competition policy.
- ❑ The deregulation of the market should start from FMS and its connection between the single market definition.

# Thank You!

**Fuat Oğuz**

[foguz@yahoo.com](mailto:foguz@yahoo.com)

Professor of Economics

Social Sciences University of Ankara

**Erman Benli**

[erman.benli@yahoo.com](mailto:erman.benli@yahoo.com)

Research Assistant

Social Sciences University of Ankara