

# **Regulatory Policy and Strategy on the Unfair Behaviors of Monopoly and Oligopoly Enterprises--Focused on the pricing behavior of the telecommunication dominant market player**

## **Abstract**

Key words: telecommunication dominant market player, anti-competitive behavior, pricing regulations, price squeeze, network interconnection, wholesale line rental

This research thesis is “Regulatory policy and strategy on the Unfair Behaviors of Monopoly and Oligopoly Enterprises : focused on the pricing behavior of the telecommunication dominant market player”. In the research, we analysis the network interconnection and wholesale line rental regulations and practices in EU telecom framework, UK, US, Japan and Australia. We find that the telecom regulators in these countries take the ex-ante regulations for the wholesale service markets, which not in effective competition. The dominant market players (in EU framework: SMP players ) need to open access the essential inputs for their downstream competitors in the fair and reasonable conditions, including the cost-based pricing.

In the wholesale pricing regulations, the top-down and bottom-up methods are adapted for the different inputs to measure the prices. The top-down method in the pricing regulation is “retail-minus”, which is the retail price minus the avoidable costs. The bottom-up method is “cost-based”, which is the network element costs and adds some reasonable expectable profits (ex. LRIC). Some countries, like Australia and Japan, use these two methods to review prices for different wholesale services. For the pricing regulations, the cost accounting systems should be well established and reviewed periodically.

For the pricing regulation, the price squeeze test should be taken by the regulators. It's import for the downstream competitors to sustain the reasonable margin between wholesale and retail prices. In the European regulation practices, the EEO ( Equally Efficient Operator ) test is taken in most countries to avoid the downstream competitors as efficient as the vertically integrated firm (the SMP player ) will be excluded from the market. And the REO ( Reasonable Efficient Operator ) test is taken in some countries, which the cost is evaluated by the downstream efficient

competitors. These two methods are used by the Ofcom in the UK regulatory practice.

For the reference to these countries above, we find that some kinds of telecom regulations and practices should be improved in Taiwan. The wholesale services and their pricing of dominant market players should be reviewed periodically. And the price squeeze test needs to be taken ex-ante in Taiwan, including the EEO and REO test mentioned above. The ex-ante retail price regulations for mobile origination market should be abolished; because of the market is effective competition. It is important for NCC to amend the Telecommunications Act and its regulations to fit the needs. We think that the FTC may review the pricing behaviors by competition law, which the prices aren't ex-ante regulated by NCC. If the FTC thinks that the pricing behaviors are anti-competitive, it should notice the NCC to review the prices. When the issue cases happened, the FCC may investigate for the cases and not yield to NCC. For the ex-post regulations, we think that some market power abusing behaviors, such like "the essential facilities abusing", "price squeeze" and "discrimination behaviors", should be monitored by FTC. To coordinate the legal opinions and the regulation tools, we think the cooperative mechanism should be established between the NCC and FTC. By the way, the effective competition will be introduced to the telecom markets.