

Price Squeeze and Non-Price Discrimination in Vertical Integration
— Taiwan Telecom Access Service Price Regulations

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Abstract

Based on network neutrality, the networks need to be completely interconnected in order to ensure unhindered (or smoothly) information flow. In this paper, we analyze the IP peering mechanism for Taiwan Internet market. The study shows that “Efficient Component Pricing Rule (ECPR),” comparing to the current “Total Element Long Run Incremental Cost (TELRIC),” is a more efficacious framework to ensure network neutrality in a vertically-integrated monopoly market to avoid price squeezes and non-price discrimination in Taiwan Internet industry. Under this pricing rule, the IP peering access charges should be a very low constant amount to reflect the unique Taiwan Internet industry structure. The framework ensures more profitable for ISPs (Internet service providers) and ICPs (Internet content providers), improves the whole social welfare, and promotes a fair and competitive industry environment.

Keywords: Vertical Integration; Price Squeeze; Non-Price Discrimination; IP peering; Network Neutrality.

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