

Broadband & TV market analysis in Belgium

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Market definition and SMP

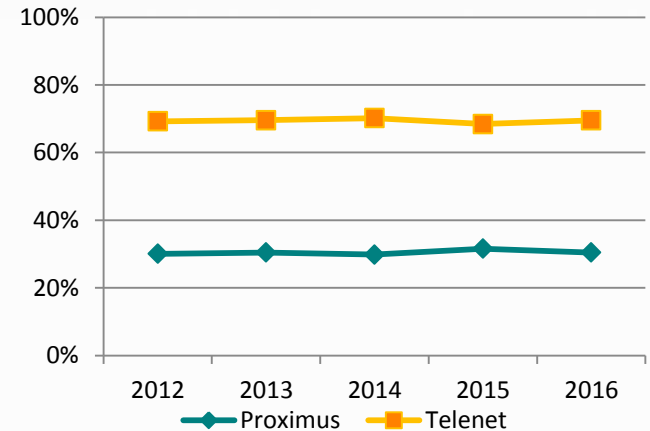
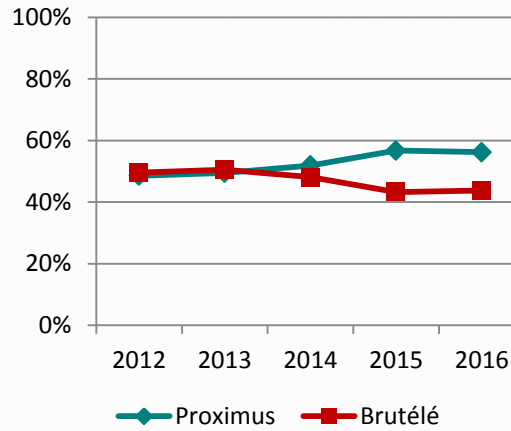
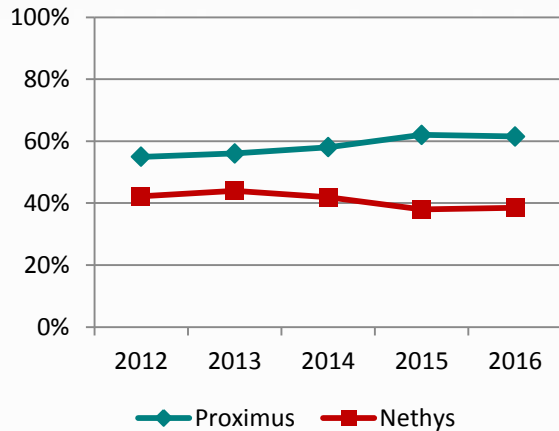
WIK workshop - Revising the SMP Guidelines

27 March 2018

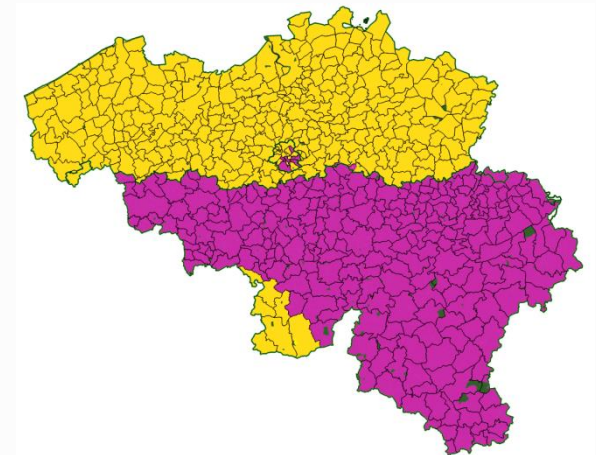
Preliminary comment

- **THE MARKET ANALYSIS WAS PRESENTED FOR CONSULTATION IN JULY 2017**
- **THE PUBLIC CONSULTATION IS CLOSED**
- **INSTITUTIONAL CONSULTATION (COMPETITION AUTHORITIES, MEDIA REGULATORS AND EUROPEAN COMMISSION) IS STILL PENDING**
- **THE CURRENT PRESENTATION IS MAINLY BASED ON THE DRAFT DECISION. IT DOES NOT PRESENT THE FINAL VIEW OF THE BIPT OR ANY OF THE OTHER MEDIA REGULATORS COOPERATING IN THIS PROJECT (VRM, MEDIERAT AND CSA)**

High market concentration



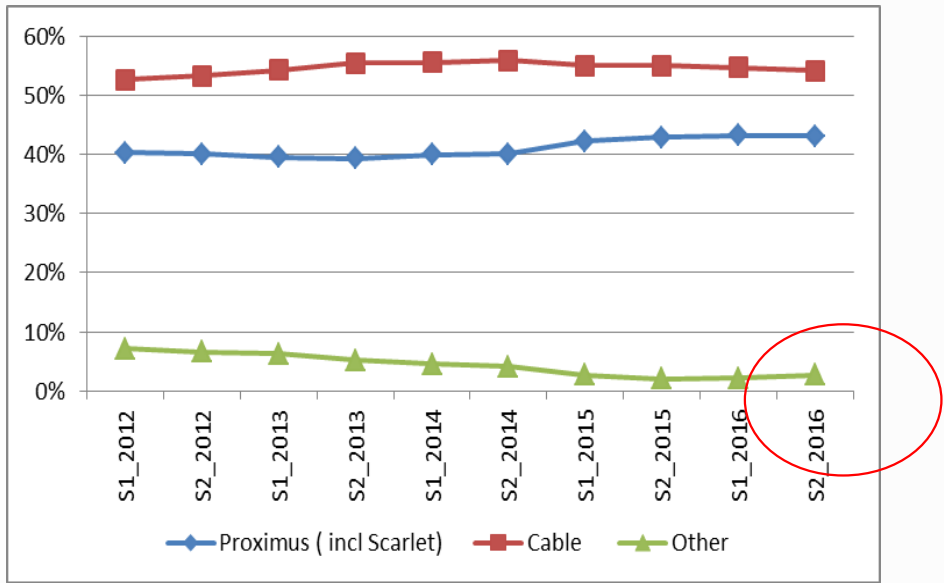
In each cable coverage area, Proximus and the cable operator have nearly 100% combined market shares for bundled products including television and broadband



Alternative operators are marginalized

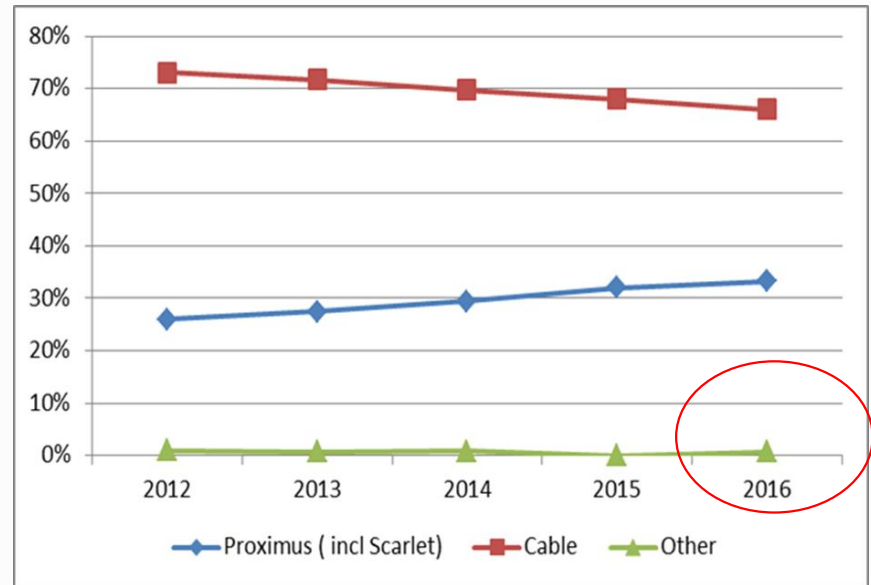
BROADBAND

National market share residential broadband offers



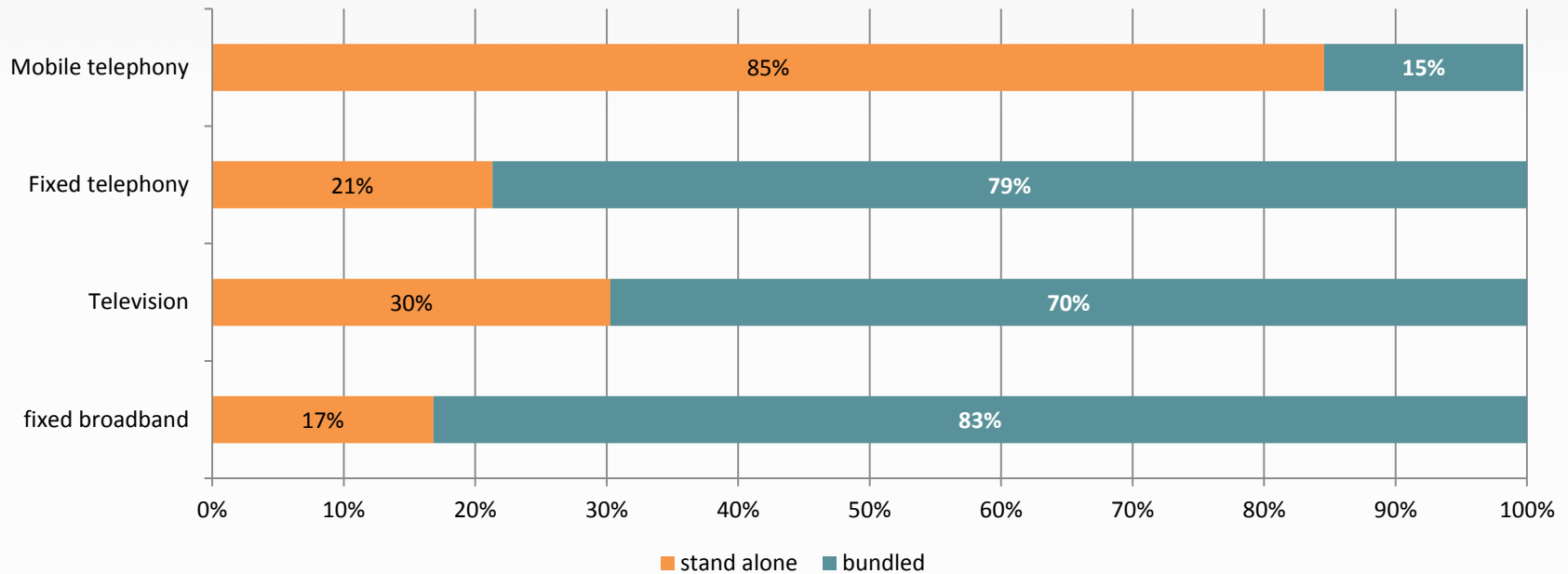
BROADCAST

National market share residential broadcast offers



Several market exits (Billi, Snow...) and marginal market share

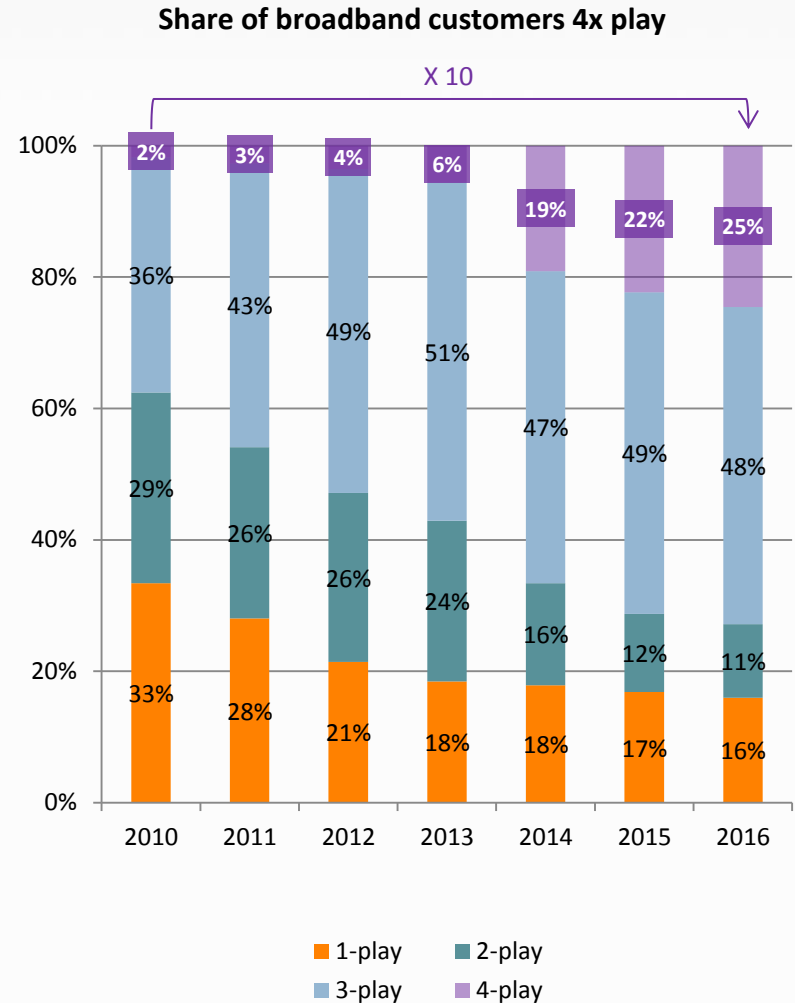
Key role of multiplay



Most consumers buy broadband and TV services in a bundle. Alternative operators offering stand alone products can not compete effectively

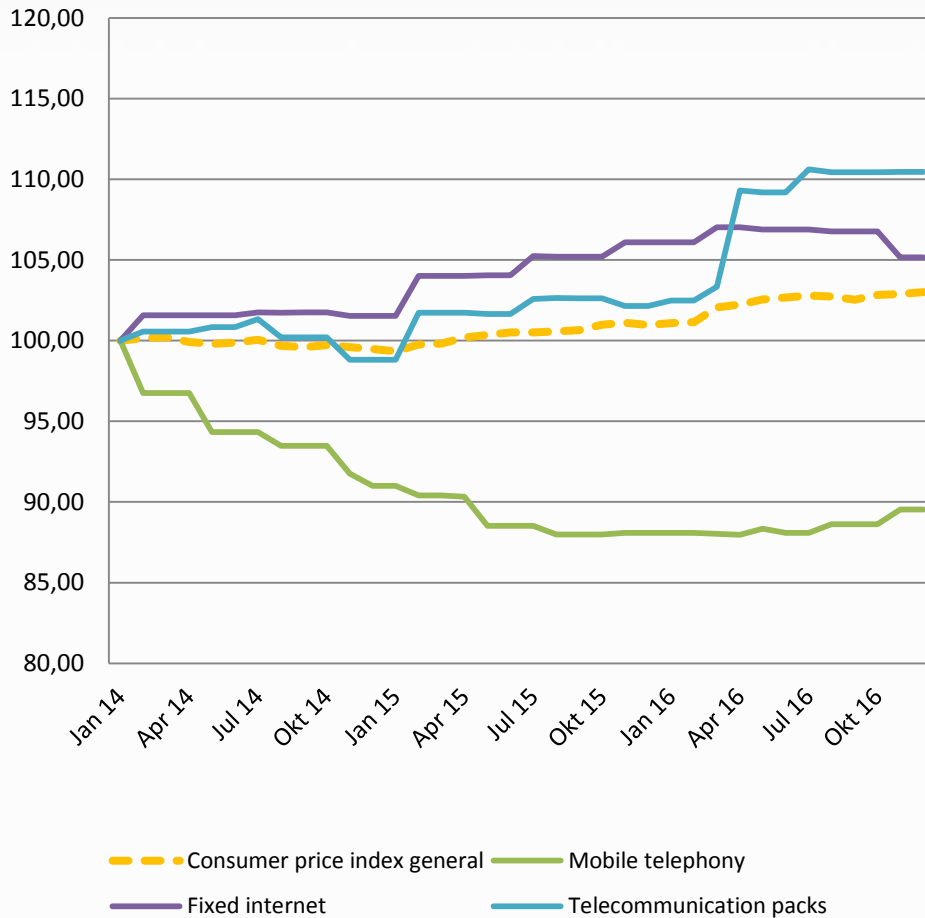
Rising importance of mobile component in bundled offers

- Shares of broadband customers in 4-Play offers (broadband, broadcast, fixed and mobile telephony) have risen drastically
- Mobile-only operator therefore needs access to fixed networks to offer broadband and broadcast services to end-customers to stay competitive on the mobile market (4P is the main growing segment; risk of mobile discounting by integrated players)



Fixed prices increase more rapidly than inflation

Evolution consumer price index (general) vs
consumer prices telecomproducts
January 2014 = 100



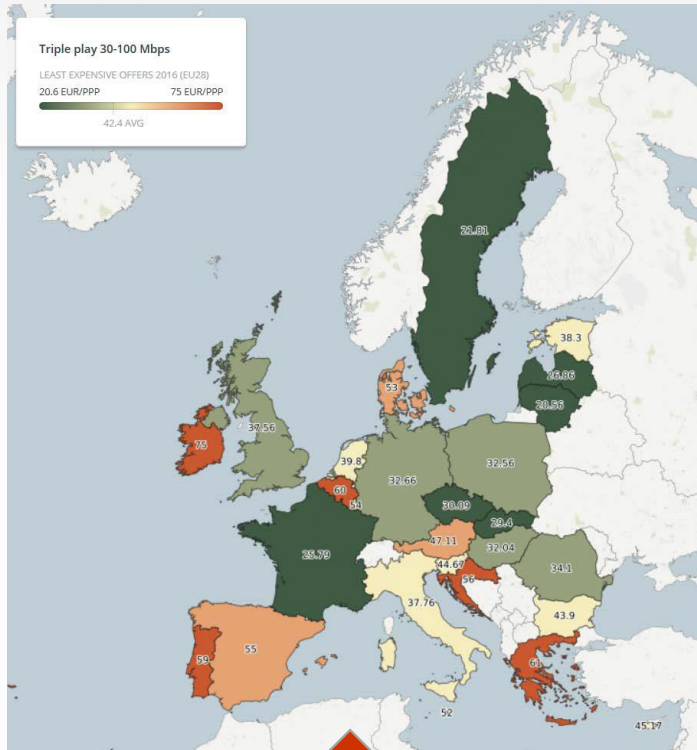
This price increase of products on the fixed markets are above inflation, while mobile prices have dropped significantly.

“The price evolution of telecom products has contributed heavily to the difference of the overall price level in Belgium with neighbouring countries. Telecom products were responsible for 16,7% of the difference in inflation.

(...) In 2016, bundled telecom products played the most significant role in the difference of inflation with neighbouring countries,”

- Belgian price observatorium study, February 2017

High prices in international context



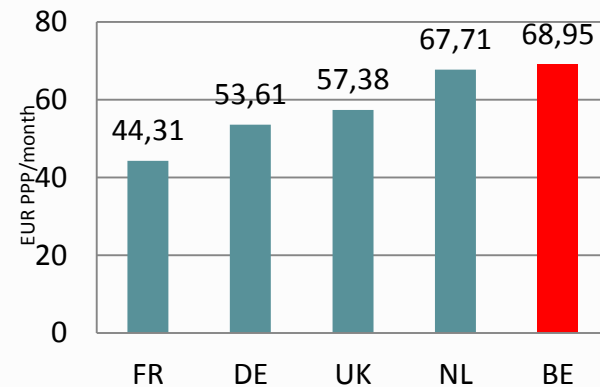
Belgian cheapest Triple Play 42% more expensive than EU average (category 30-100 Mbps)
(source: BIAC 2016 price study)

High monthly costs for multiplay offers including broadband and television compared with neighbouring countries
(source: BIPT 2016 price study)



Average monthly cost – nominal terms
(EUR PPP)

Triple-play offers (30-100 Mbps), including usage cost of 70 calls



Market outlook summarized

Barriers to entry (network, content, multiplay)

High concentration in residential and business markets

Low churn rates (potentially worsening due to 4-P increase)

No effective price competition & high price levels

→ Risk of consumer harm in absence of appropriate regulation

Retail market definition

BROADBAND

- **ALL SPEEDS, ALL FIXED TECHNOLOGIES (XDSL, CABLE, FIBRE) ARE IN THE RELEVANT MARKET**
- **MOBILE, WIFI AND SATELLITE ARE EXCLUDED**
- **CONSUMER AND BUSINESS SERVICES ARE DISTINCT MARKETS**

BROADCAST

- **LINEAR PAY TV IS THE FOCAL PRODUCT (NON LINEAR AND FREE-TO-AIR SERVICES ARE EXCLUDED)**
- **ANALOGUE AND DIGITAL, AS WELL AS IPTV AND CABLE, ARE IN THE RELEVANT MARKET**
- **SATELLITE, DVB-T AND OTT ARE EXCLUDED**

Wholesale market definition

M3a - Wholesale local access

- In the market: copper, **fibre (P2P and PON)**
- Not in the market: cable, FTTO

M3b - Wholesale central access

- M3b-1: copper, **fibre**
- **M3b-2: cable**
- Both markets include mass-market and business

Wholesale TV on cable networks

- **Wholesale TV**
- In the market: DVB-C on cable networks
- Not in the market: IPTV, DVB-T, DVB-S, OTT

Geographic markets defined according to operators' footprints
Blue = new in 2018

Copper/fibre and cable are different wholesale markets

Market 3a - Local access (unbundling) does not include cable:

- **Cable cannot be physically unbundled**
- **No VULA possible on cable networks**
- **Insufficient indirect constraint**

Market 3b - Central access (bitstream) is divided in 2 markets:

- **Market definition relies on possibilities to switch between providers (SSNIP test)**
 - Different standards (ITU SG15 vs Cablelabs) imply **high switching costs** (hand-over points, CPE & customer visit, training technicians, IT platforms)
 - Market experience demonstrates that switching takes a very long time to implement
 - A change of technology at wholesale level is a strategic decision, not a reaction to a 5-10% price increase (SSNIP)
- **Insufficient indirect constraint**

How to assess switching costs?

Clear wording in current SMP guidelines & Communication 97/C 372/03

- *Substitute, replace, switch, customer, sales being lost...*
- The possibility to substitute may be hindered by considerable switching costs
- Demand substitution is the most immediate disciplinary force
- If the overall costs of switching production are relatively negligible, then a product may be incorporated into the product market definition

Switching costs and SSNIP test in the new (draft) SMP Guidelines

- NRAs should make use of evidence from *"previous customers' behaviour"*
- To determine whether different platforms should be included in the same wholesale market *"the SSNIP test should be applied"*
- Assessment should also take into account *"potential access seekers who are not yet providing access-based services"* and who have no switching costs when choosing their access platform (forward-looking analysis)
- *"Such analysis should assume a hypothetical competitive access regime facilitated by regulation, disregarding impediments to switch which may have been artificially inflated by the network operators to prevent switching away from, or to a given platform"*

Switching costs / draft SMP Guidelines

New entrants vs. existing operators

- The role of potential access seekers on the relevant wholesale market should be investigated by the NRA's before considering that they can be determinant for the market definition over existing access seeking operators.
- The likelihood of a new entrant should be sufficiently plausible and should be of a certain magnitude.

Switching costs

- If operators can create real switching costs, it is dangerous to ignore them at the stage of the market analysis.
- What are “artificially inflated impediments” to switching, as opposed to “objectively or technically justifiable” impediments to switching?
- Are actual impediments to switching irrelevant for the market context if they are part of the “*conditions of competition and/or the structure of supply and demand in the market in question*” (which are, in turn, relevant for the product market definition)?

SMP Guidelines: positive points

- **EMPHASIS ON THE IMPORTANCE OF THE RETAIL MARKET CONTEXT, BEFORE REVERTING TO THE ANALYSIS OF THE UNDERLYING WHOLESALE MARKETS.**
- **NRA'S DO NOT NEED TO FIND SMP AT THE RETAIL LEVEL IN ORDER TO JUSTIFY A FURTHER REVIEW OF ASSOCIATED WHOLESALE MARKETS.**
- **MARKET DEFINITION AND SMP CONCEPTS: METHODOLOGICAL ALIGNMENT WITH COMPETITION LAW.**
- **GUIDANCE ON THE ASSESSMENT AND PRACTICAL TREATMENT OF JOINT DOMINANCE.**
- **INCREASED ATTENTION FOR OTT-SERVICES AND TECHNOLOGICAL CONVERGENCE.**

SMP on the relevant markets

M3a - Wholesale local access

- In the market: copper, fibre (P2P and PON)
- Not in the market: cable, FTTO

Proximus SMP

M3b - Wholesale central access

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Proximus SMP

Cable SMP

Wholesale TV on cable networks

- Wholesale TV
- In the market: DVB-C on cable networks
- Not in the market: IPTV, DVB-T, DVB-S, OTT

Cable SMP

Expected timeline ongoing market analysis

**End of March:
Opinion of
the national
Competition
Authority**

**Notification
to the
European
Commission**

**Notification
to CRC
Members**

**June: Final
adoption by
the CRC**

