



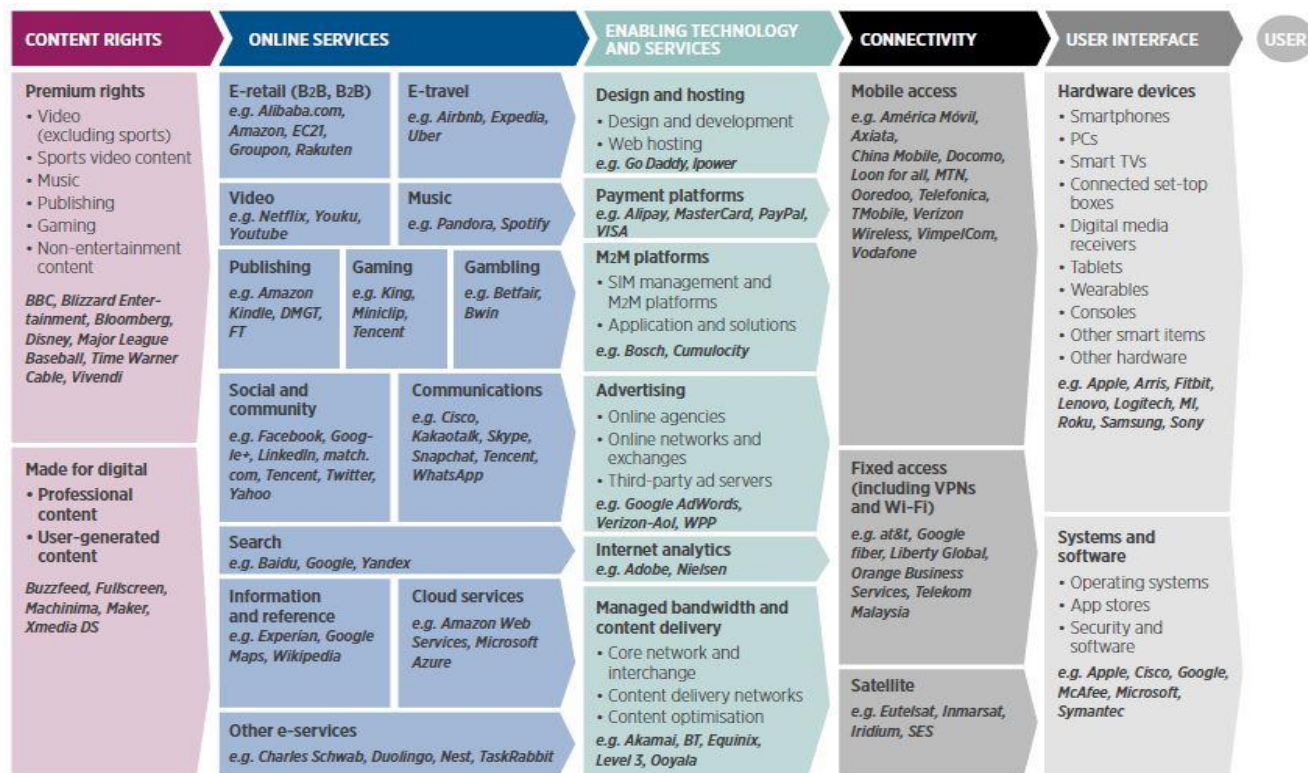
Un nuevo marco regulatorio para el ecosistema digital

Serafino Abate
Director, Competition Economics
GSMA

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The internet value chain – a rich and diverse ecosystem

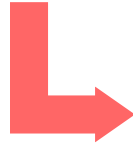


Note: M2M is machine to machine, and VPN is virtual private network.

Source: A.T. Kearney analysis

Traditional bottlenecks are becoming less relevant, while new bottlenecks are emerging

Traditional telco bottlenecks may be less relevant in the Digital Age



New potential bottlenecks emerging include operating systems, app stores and elements of the IP interconnection value chain

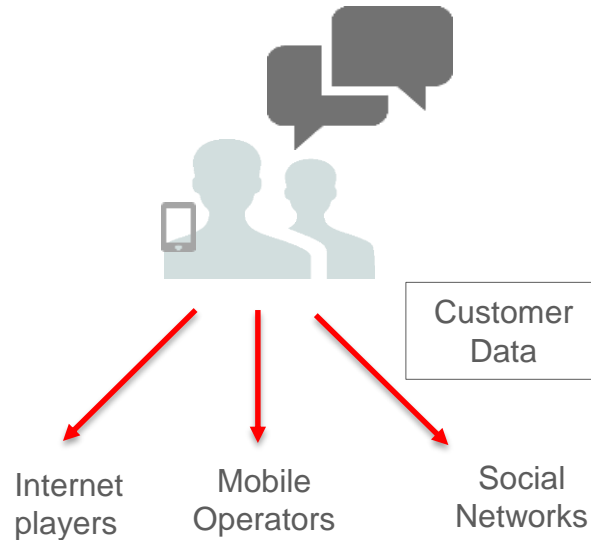


In some cases, statutory legal powers maybe insufficient to deal with these old and new bottlenecks on a consistent basis

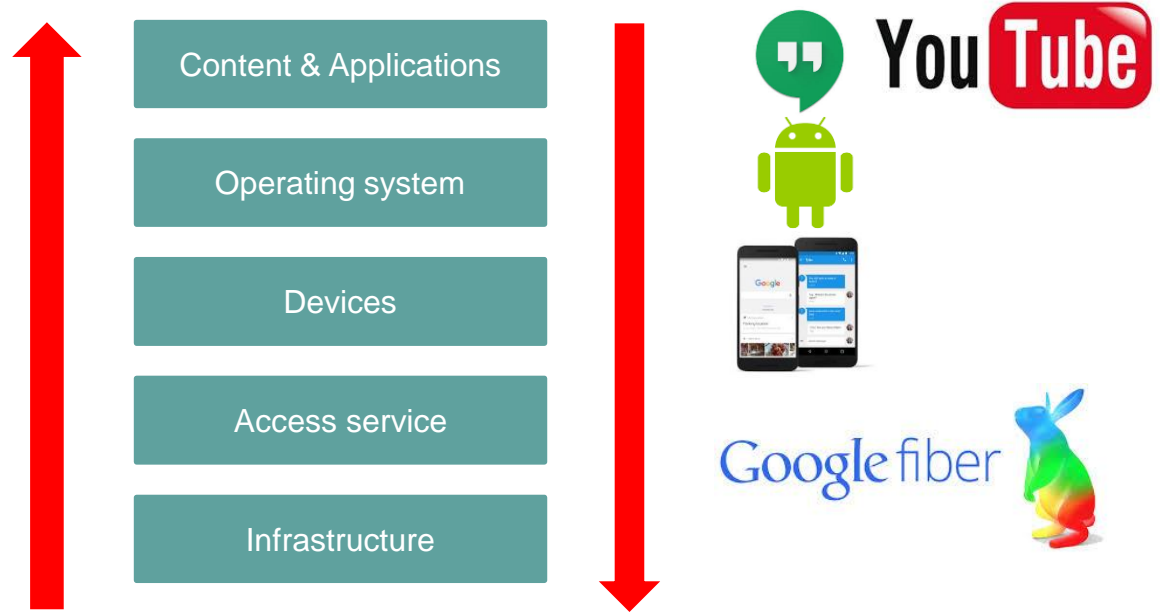


Control of customer data is a significant strategic advantage

An important trend in the market is the 'dematerialisation' of consumer data, which is no longer fully owned by MNOs but rather owned by several parties, including Internet players.



Vertical bargaining and integration



Other things equal, tendency for vertical integration/partnering

Competitive Dynamics of the Digital Ecosystem

Modularity

- All digital players engage each other across the value chain in a variety of roles
- Digital sector is not a collection of related but separate markets but rather a single, integrated ecosystem

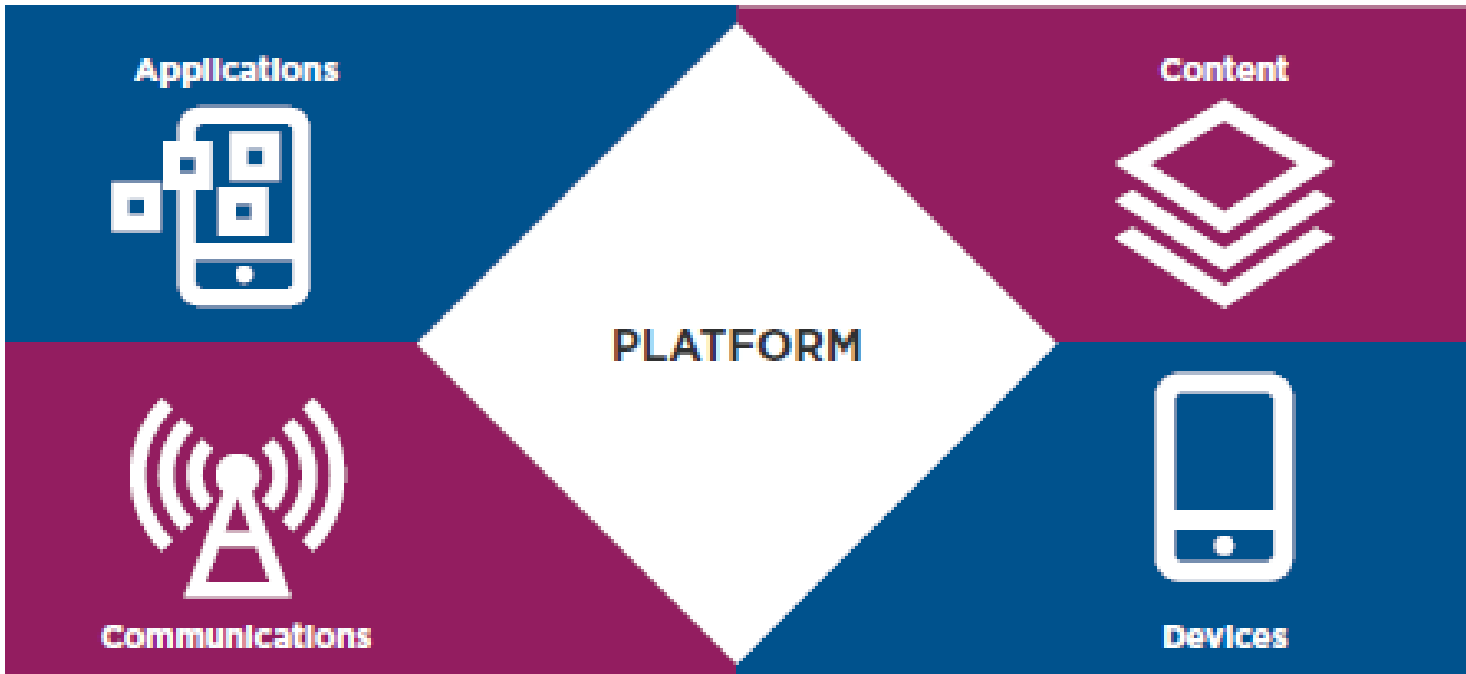
Economies of Scale and Scope/Network Effects

- Competition “for” the market, not “in” the market
- Consumers benefit from size and scope; regulation should not impose barriers to their realization

Dynamic Competition

- Transformative innovation generates choice and value for consumers
- Static “dominant” positions are dynamically contestable
- Regulation should not inhibit innovation and investment

The Modules Comprise a Platform



System goods and complementarity



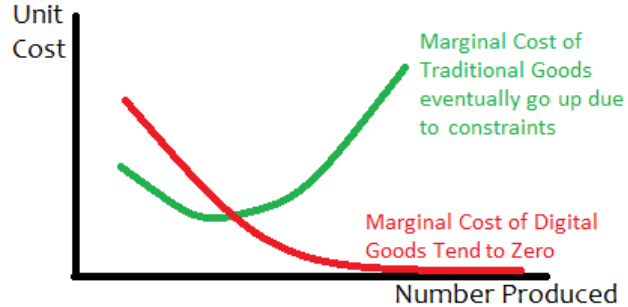
Strong complementarities
between infrastructure
and services



Individual contributions to social
welfare difficult to disentangle

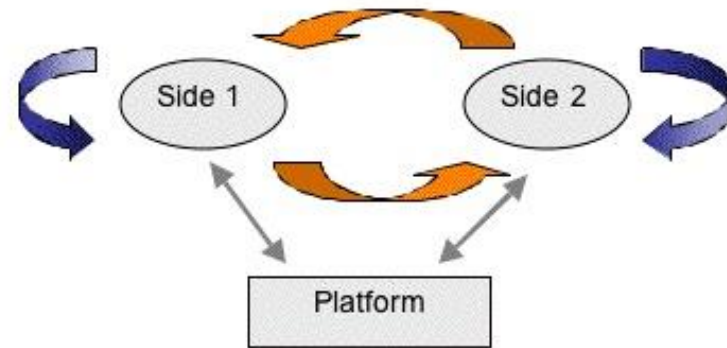
Economies of Scale and Scope Benefit Consumers

Supply Side



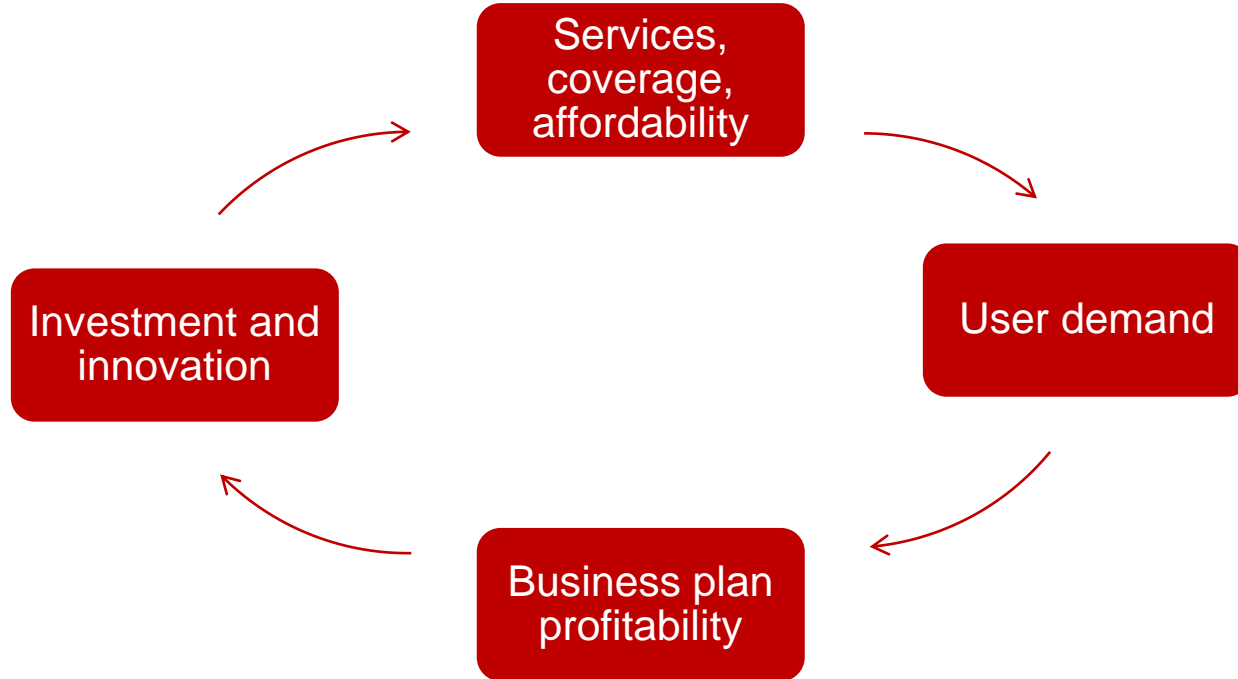
For information goods, marginal cost approaches zero

Demand Side



“Network effects” and multi-sided platforms:
The greater the user base the higher the value
for all users

Dynamic Competition - Drives Innovation and Investment

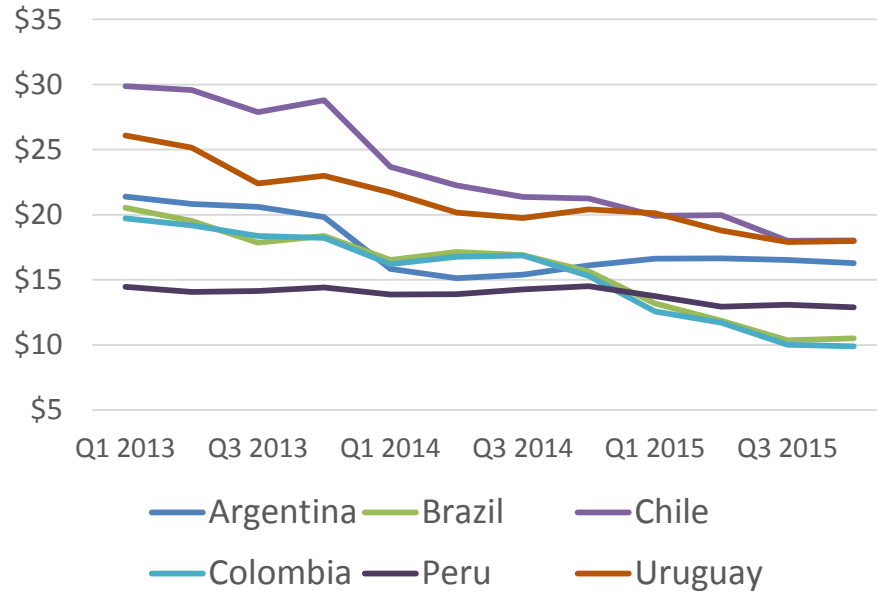


Dynamic Competition - Enables Disruptive Entry

	Incumbent(s)	Entrant(s)
MOBILE PHONES	Blackberry, Nokia, Motorola	Apple, Samsung
INTERNET BROWSERS	Microsoft	Chrome
MOBILE MESSAGING	Wireless Companies	Skype, WhatsApp
ONLINE MUSIC	Apple	Pandora, Spotify
LONG DISTANCE CALLS	Wireline telco incumbents	Mobile carriers, Skype

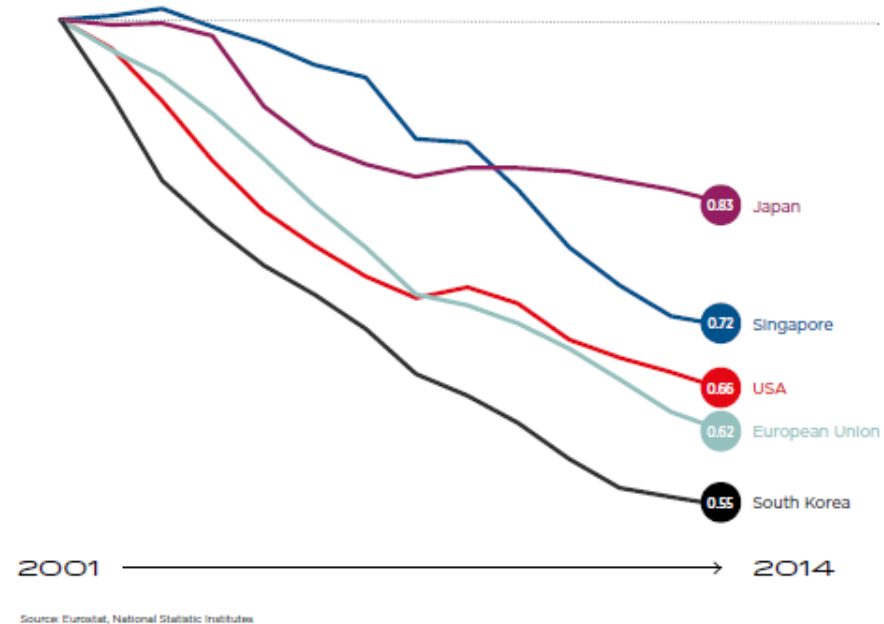
Dynamic Competition - Drives Prices Down

ARPU, selected South American countries, nominal USD



PRICE INDICES FOR TELECOMMUNICATIONS SERVICES

(Selected countries; 2001-2014)



Examples of Regulatory Asymmetries



	Applications	Devices	Content	Communications
Consumer Protection	General CP law	General CP law	Age-related, violence, sex; otherwise general CP law	Specific regulation: portability, opt-in services, specific consumer protection offices
Competition Enforcement and Economic Regulation	General competition law	General competition law	Compulsory licensing for some content; otherwise general competition law Restrictions on advertising time Restrictions on foreign ownership	Industry specific obligations and regulatory institutions. Asymmetric access regulation to SMP operators
Security	Data requests by authorities	Little or no regulation Current battle over encryption	State secrets regulation	Legal interception of communications Retention of call data records Interoperability with military networks
Privacy and Data Protection	General privacy regulation	General privacy regulation	Specific regulation (e.g. images of minors; 'right to be forgotten')	Industry specific regulation (e.g., "CPNI"); licence conditions

Costs and Consequences of Legacy Regulation

Regulating well is always difficult...

- Lack of information leads to regulatory errors, distorting markets and competition
- Market conditions and technologies change in unpredictable ways
- Regulations often impose substantial compliance burdens
- Regulation inevitably benefits some interests over others

...and more so in the digital ecosystem

- Complexity of digital markets increases regulatory error
- Rapid change accelerates regulatory obsolescence
- Innovation and entry are distorted by regulatory burdens and risks
- Higher regulatory distortions raise returns to rent-seeking

Discriminatory, prescriptive regulations inhibit the growth of the digital ecosystem and reduce consumer welfare

Principles of a New Regulatory Framework

Functionality-based

- Pursue regulatory goals based on achieving regulatory objectives, not legacy structures based on industries or technologies

Dynamic

- Prefer performance based regulation with ex post enforcement over prescriptive, ex ante rules

Bottom-up

- Evaluate regulation – including the need for regulation – in light of current market realities

The new framework will reduce regulatory asymmetries, promote dynamic competition and innovation, and allow regulatory objectives to be achieved more effectively at lower cost

Applying the three principles for a new Framework

Implications for...

Regulation of bottlenecks

- Consistent standard across the ecosystem should limit regulation to enduring bottlenecks (if any)
- Where competition is well established, legacy regulation should be removed
- New potential bottlenecks should be monitored to ensure no foreclosure effects

Privacy and Data Protection

- Communications carriers subject to specific, more stringent rules than other digital players
- Technology- and business-model-agnostic rules will benefit consumers and competition

Spectrum Management

- Critical input for mobile wireless more heavily regulated than critical inputs to other players (e.g. IP rights)
- Spectrum should be managed to reduce scarcity and enhance flexibility through market mechanisms

Muchas gracias

Serafino Abate
Director, Competition Economics, GSMA
sabate@gsma.com