

**Two-Sided Platforms and
Competition Policy:
What have we really learned?**

Tommaso Valletti

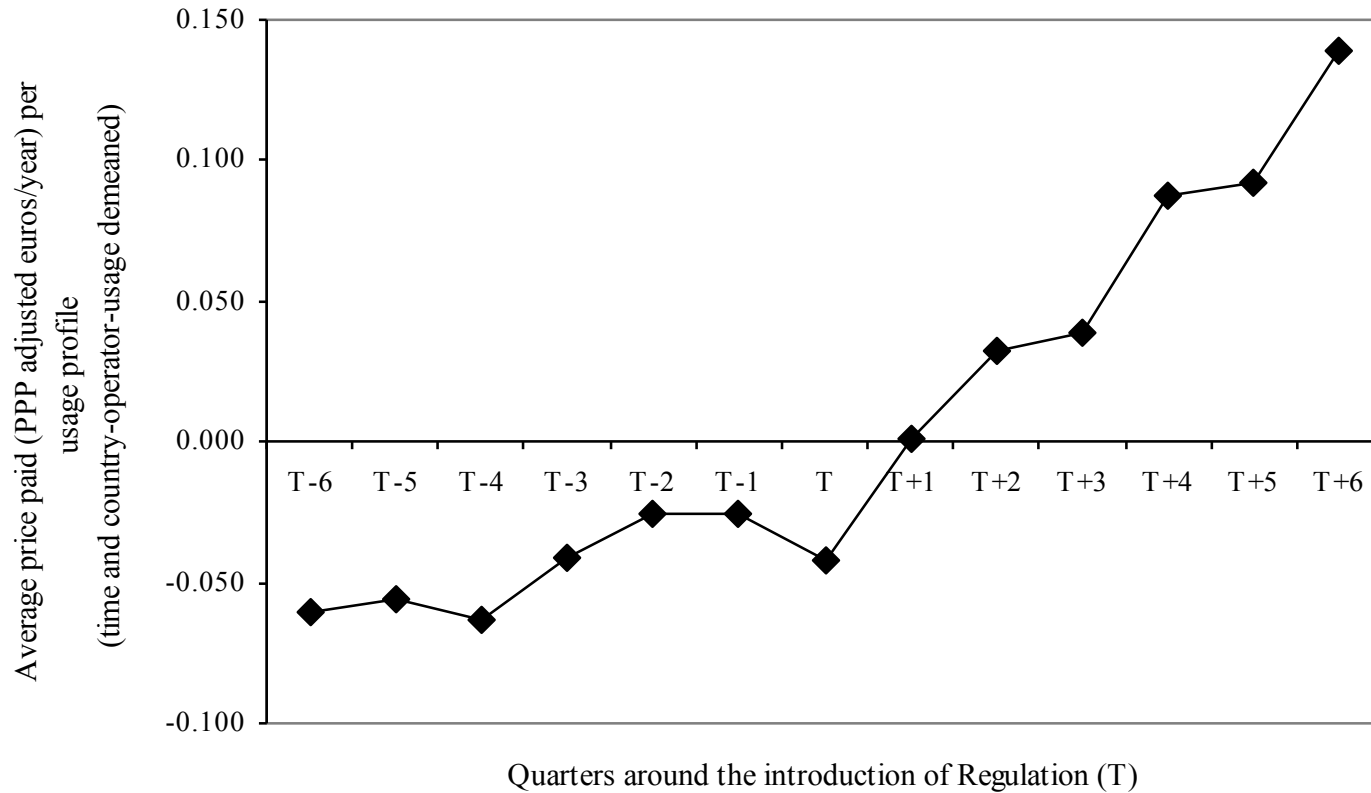
What have we ~~really~~ learned in theory?

- Implications for **market definition**
 - Business models are not markets
- Challenging for regulation, often ignored by competition authorities
 - Does it matter if we have good data and can calculate the 'right' elasticities?
- Note (1): one-sided logic wrong in two-sided markets (e.g., mark-ups of individual services, margin test)
- Note (2): because of externalities, two-sided markets, *even if* competitive, are *not efficient*

What have ~~we~~ I really learned?

- Expect and account for **feedback effects**
- E.g., regulation of **mobile termination rates**
 - Collected quarterly data for 20 countries over 10 years, empirical work with Christos Genakos

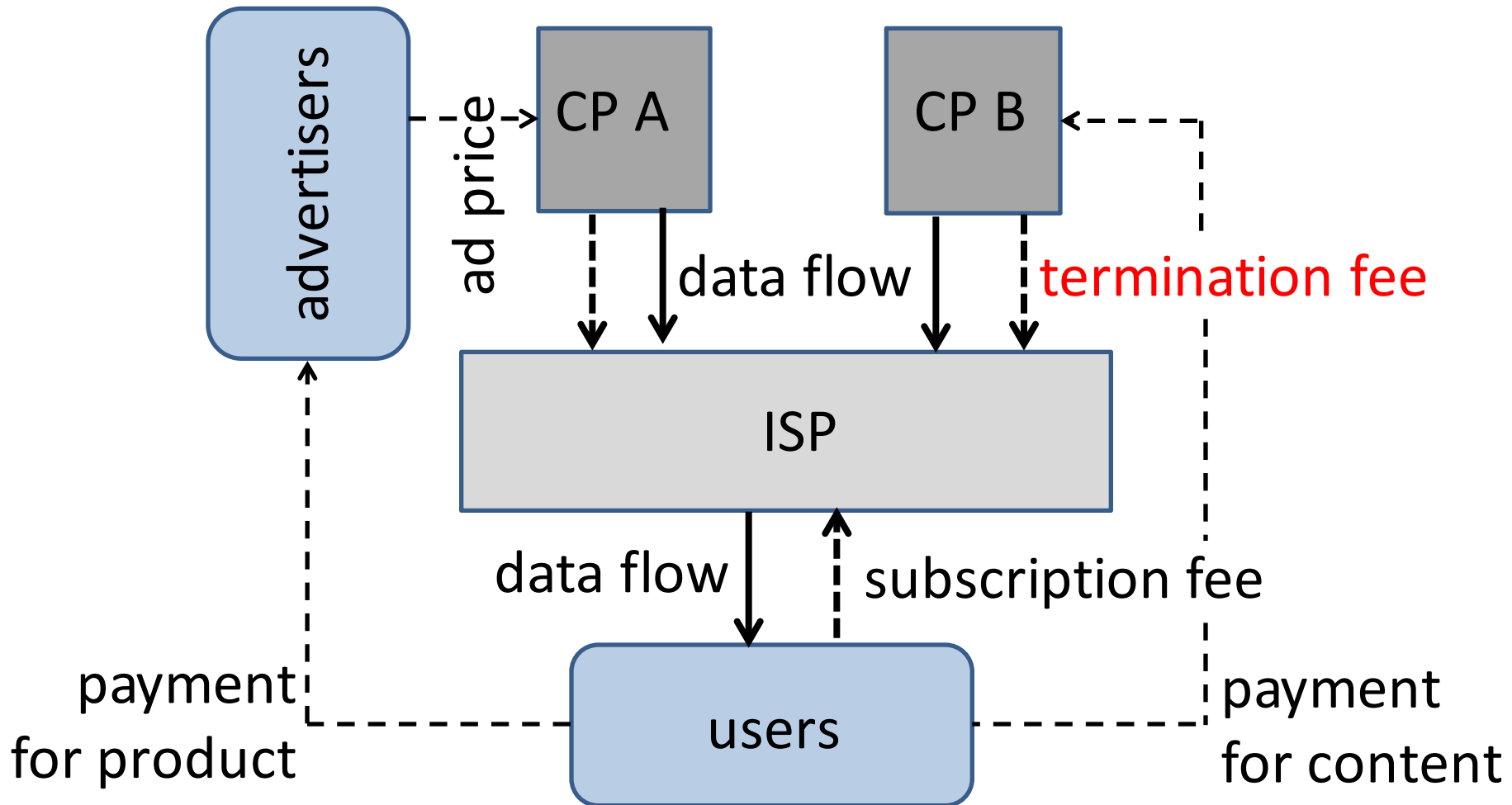
The “waterbed” effect



The “net neutrality” debate

- **Facts**
 - issue of congestion (limited capacity)
 - some services are more time-sensitive than others
 - e.g., video conferences, online video games and certain cloud services are time-sensitive
- **Economic issues:**
 - Are the users’ ISPs allowed to charge also CPs?
 - Are ISPs allowed to make differentiated offers to CPs (QoS)?
 - Are ISPs allowed to prioritize different type of service over others (discrimination)?

The net neutrality debate



The net neutrality debate

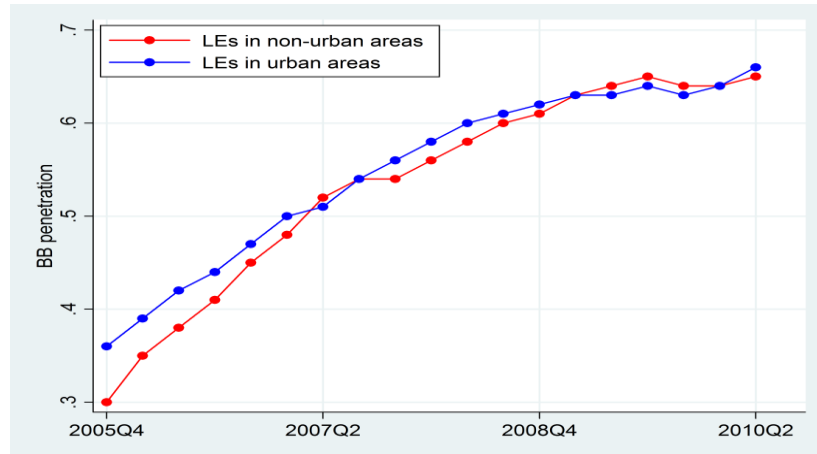
- Are the users' ISPs allowed to charge also CPs?
 - View in parts of the public that this amounts to double-charging
 - This view contradicts two-sided market logic
 - Use two-sided market theory to understand implications of regulating the price on one side to zero
- Are ISPs allowed to make differentiated offers to CPs?
 - Efficiency arguments: prices signal value and cost
 - Market power concerns
 - Should be dealt with competition law
 - If not enough, look at structural remedies

Market power and unbundling

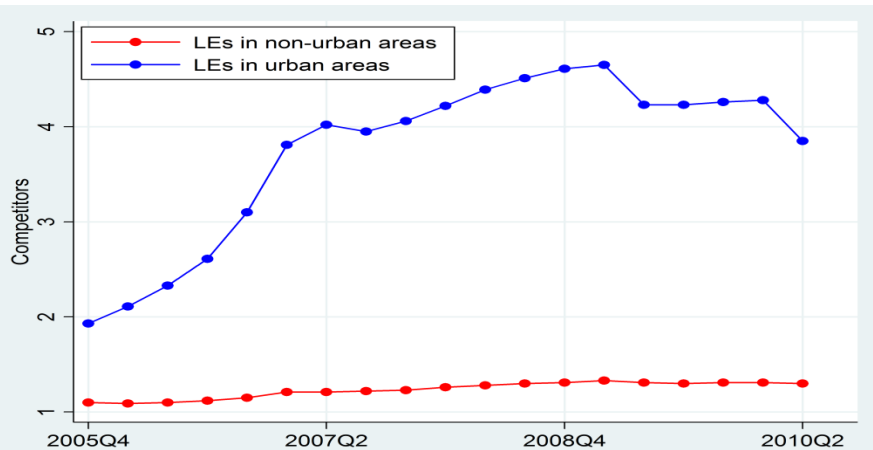
- Impact on broadband (LLU)
- Recent study by Nardotto, Valletti and Verboven (2015)
- Microdata at the level of each Local Exchange (= Central Office) in the UK, 2005-2010
- Results:
 - LLU unbundling did NOT increase penetration, but...
 - It increased quality (speed)
 - Competition from alternative technology (cable) is the most important factor to increase both penetration and speed

Impact of LLU

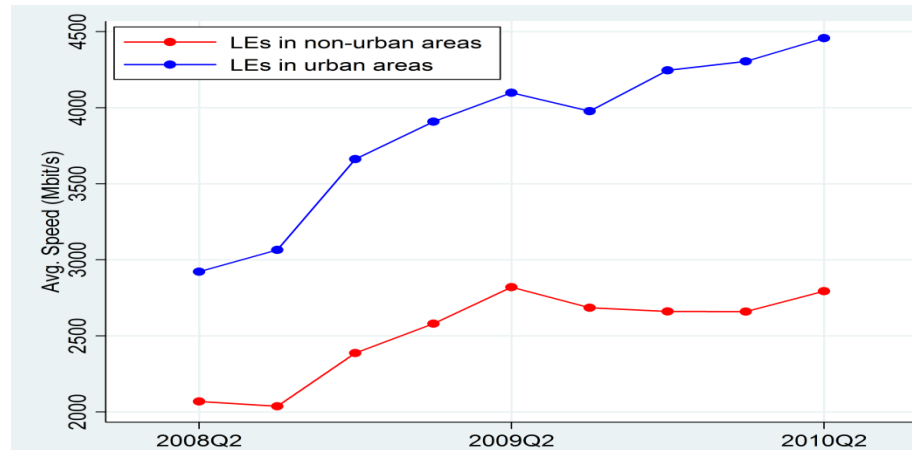
- Penetration? **NO**



- Entry of LLU operators? **YES**



- Speed? **YES**



Implications

- Almost inevitably, **wider relevant markets**
- Will be **more difficult to intervene ex post**
- Ex ante approach when market failures are endemic (**bottleneck**)
- **Unbundling** is an option, but m-management and takes time
- **Inter-platform** competition much more effective