Access Regulation, Entry and Investments in Telecommunications

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This paper presents a model of competition between an incumbent and an entrant firm in telecommunications. The entrant has the option to enter the market with or without having preliminary invested in its own infrastructure; in case of facility based entry, the entrant has also the option to invest in the provision of enhanced services. In case of resale based entry the entrant needs access to the incumbent network. Unlike the rival, the incumbent has always the option to upgrade the existing network to provide advanced services. We study the impact of access regulation on the type of entry and on firms' investments. We find that without regulation the incumbent sets the access charge to prevent resale based entry and this generates a socially inefficient level of facility based entry. Access regulation may discourage welfare enhancing investments, thus also inducing a socially inefficient outcome. We extend the model to account for negotiated interconnection in case of facilities based entry.

Keywords: telecommunications, ladder of investment, access regulation, interconnection.
JEL: L86, L96, L51.