

# Margin squeeze test – what and how?

The views expressed on costing, pricing and FTTx technologies represent those of alternative telecoms operators and cannot be held to reflect the views of those members with incumbent interests

# Ex-ante margin squeeze test: the obligation

- NRAs should impose an ex ante obligation on operators with SMP not to margin squeeze:
  - Not to squeeze margins of retail offers vis-à-vis wholesale inputs
  - Not to bundle unreasonably and not to squeeze margins for bundles
  - Not to squeeze margins between different wholesale products
- NRAs should specify an ex ante MS test & complement it by an ex post MS test

# Ex-ante margin squeeze test: main principles

- **Reasonably Efficient Operator test** as required standard:  
*Is the difference between the incumbent's retail and wholesale prices sufficient for a reasonably efficient downstream competitor to earn a normal profit?*
- Test should be **passed by each offer**, including bundles (even if only one product is regulated) and promotions (including cost of equipment, like iPad, at market value)
- Test should be **applicable at each level of the value chain independently**
- Test should be **applicable between different wholesale products** to provide sufficient economic space between all relevant business models along the vertical value chain
- Test to be carried out on a **period-by-period basis e.g. lifetime of consumer on the given offer/promotion**

# Procedure

- Ex-ante margin squeeze tests should be carried out before the launch of the retail product complemented by the possibility for complaint after launch
- The mechanism should be **the pre-notification of offers with burden of proof for compliance on SMP operators**
- NRAs should be empowered to stop the launch & require the suspension of the abusive retail products
- NRAs should be empowered to require the SMP operator to amend its wholesale and/or retail price or withdraw the abusive offer
- NRAs should be empowered and make use of deterrent fines to prevent repeated abuses
- The ex-ante test should be **complemented by ex-post checks** to verify the assumptions of the ex-ante test