



EETT's Role in the Prosperity of the Consumer

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In a free market or a market economy, the answer to the problem of perfect distribution of production resources and the socio-economical problems in general, is given by the price mechanism, which functions freely in a competitive environment, without any external interventions.



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In the market economy system, the price forming mechanism offers the answer to the questions: what will be produced, how much will be produced, how will it be produced and for whom will it be produced?

The competitive price system of free economy is a sufficient condition (however not necessary as well) in order to optimize the entire economic system (i.e. to bring it to optimum situation according to the Pareto condition). Nevertheless, in order for full competition to ensure the optimum allocation of resources and goods, and by consequence the prosperity of the consumer, there are certain assumptions that need to be satisfied, (a) the goods must be private and indivisible, which means that the consumption of their quantities by one person must exclude the simultaneous consumption of the same quantities by other persons, (b) absence of external effects, (external economies and diseconomies), which means that the consumption of one person must not be affected by the consumption of other persons, (c) that the "law" of decreasing returns to scale or the law of increasing cost will apply. When this law applies, profit is maximized for the producers according to the equation $MC = P$ (where MC = marginal cost, P = price of good in the market). On the contrary, when cost decreases (increasing return to scale) the $MC=P$ scale leads to negative profits since $AC > MC$ (AC = average cost). Due to

the high fixed cost (high sunk cost) and the scale economies created, decreasing cost leads to monopolistic conditions, (d) complete information and conditions of certainty in the market (i.e. absence of asymmetrical information between producers and consumers).

Potential failure to meet the above mentioned conditions results in failure to achieve system optimization, i.e. non optimum allocation of production resources and goods, in which case market failure results along with the creation of monopolistic or oligopolistic conditions. Market imperfections are handled either by internalization of external effects, or by state corrective policy, in which Adam Smith's invisible hand or the "Laissez Faire" concept are replaced by the invisible hand of the state, i.e. the regulatory authority.

In order to control oligopolistic and monopolistic phenomena in the various markets, the state, which constitutes the second financial institution in free economies after the market institution, intervenes by creating Independent Regulatory Authorities, which aim at minimizing or eliminating arrhythmia in the markets in order to maximize consumer welfare. However, in what way does the Independent Regulatory Authority, i.e. EETT, contribute in the telecommunications market towards the welfare of the consumer? The telecommunications market is a market with an oligopolistic structure,



with intense interdependence between the small number of business of the sector as a main characteristic. In the oligopolistic market, the firm operates under a state of uncertainty, whereas during the implementation of the pricing policy, it takes into account behaviours of the competitors. In the telecommunications market, there is the main provider, namely the one holding a dominant position in the market (i.e. the one possessing significant power in the market, SMP), namely OTE (former physical monopoly) and the alternative providers, namely OTE's competitors. The implementation of rules of competition in the electronic communication market strengthens the role of EETT. The new Law 3431/2006 authorizes the Independent Authority (i.e. EETT) to implement Law 703/1977 on competition principles in the electronic communications market.

The Regulatory Authority has at its disposal two main intervention tools in order to render competition

workable to the benefit of consumer prosperity in a now liberated telecommunications market: Competition policy and regulatory policy (ex ante Sectoral Regulation). Both policies aim at rendering competition more effective. In particular, Regular policy means aim at the ex ante sectoral regulation of SMP enterprises (cost-oriented pricing obligation), so that the market may work according to the principles of competition. Regulatory Policy intervenes ex ante in the pricing policy of the monopolist or the enterprise holding a significant position in the market (such as OTE), aiming at strengthening competition and promoting consumer prosperity. On the other hand, the Competition Policy is exercised when it is considered that competition may work, namely when competition is more desirable. According to the Economic theory, Competition Policy means are aimed at the ex post control of the behavior of SMP enterprises, which create, preserve or strengthen SMP's with negative consequences on consumer prosperity. Such behaviors are a) foreclosure practices on the part

of the SMP enterprise in the electronic communications market (e.g. denial of access to essential facilities) b) undue exploitation of predominant position by the prevailing provider (e.g. price squeeze) and predator pricing, which averts the entrance of other competitors in the market, c) cooperating behavior (harmonized practices) that lead to anti-trusts, with adverse consequences for consumer prosperity. In addition, the goal of the Pricing Policy is the ex ante control of enterprise mergers and acquisitions that change the market structure (change of shares and change of concentration level in the market) and strengthen the dominant position of SMP enterprises in the oligopolistic market. By applying transparent and unbiased procedures, without external interventions, EETT promotes competition in the respective market to the benefit of consumers. It is commonly believed that by applying the principles of competition (without ignoring the complexity of the electronic communications market), EETT contributes to consumers' welfare.

