

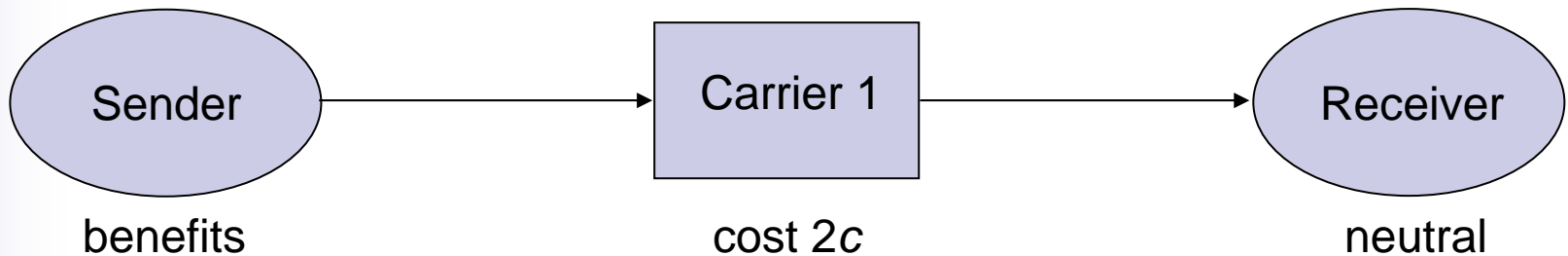


Access, *Origination*, and Termination Charges in Telecoms

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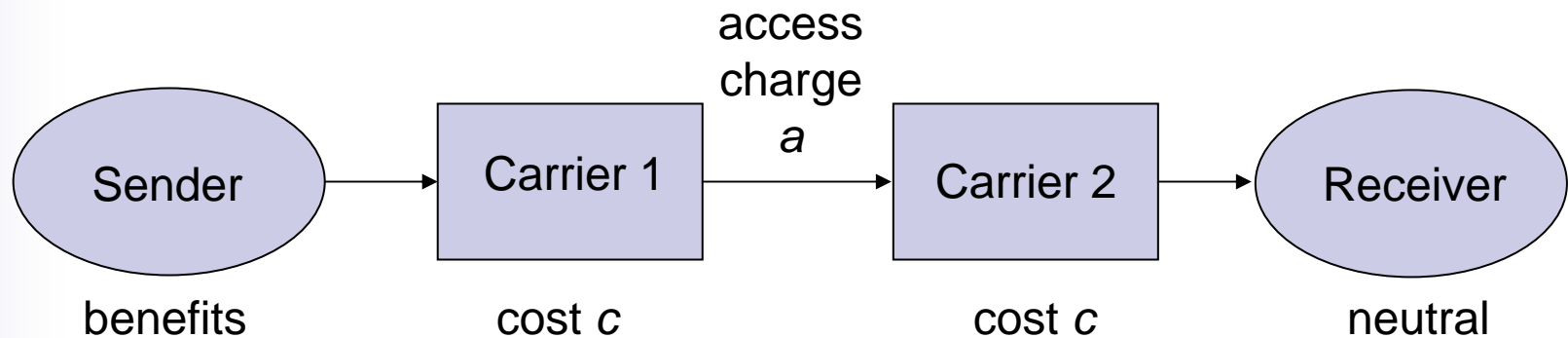
30 June 2006

Old view was uni-directional, with strong implications for retail pricing.



“Cost-causative pricing” is all about getting the sender to pay (with Ramsey deviations if fixed costs and incentive considerations if innovation).

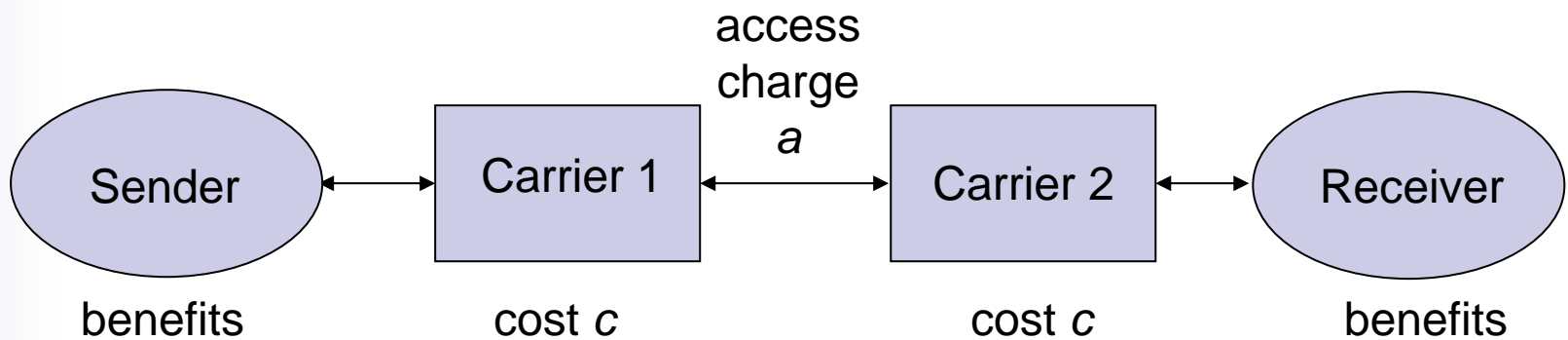
Old view was uni-directional, with strong implications for intercarrier compensation.



Cost-causative pricing is all about getting the sender to pay, possibly through his or her carrier.

Carrier 1 is a customer of Carrier 2.

The new view is bi-directional.



Sender-as-cost-causer is a bad way to think about the problem.

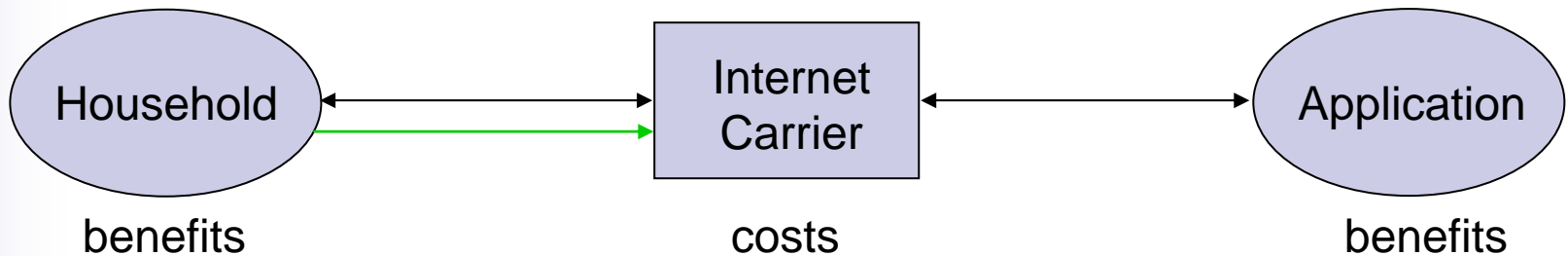
What about origination charges?

Carrier 1 is a complementor of Carrier 2, and vice versa.

Two-sided benefits matter for retail pricing and, thus, for access pricing.

- Efficient retail pricing requires setting:
 - correct ratio of send and receive prices, and
 - the correct sum.
- An access charge may fix the ratio but not the sum.
 - Absent a cross-carrier internalization mechanism, off-net prices are too high because lower prices benefit rival carrier's subscribers. (Laffont et al. (2003) off-net cost pricing principle.)
 - The access charge cannot internalize these effects.
- Repeat play or inter-dependent pricing strategies can lead to cross-carrier internalization but vitiate the access charge.
- Non-zero access charge can be optimal even in highly symmetric situations.

Many proponents of “network neutrality” demand one-sided pricing.

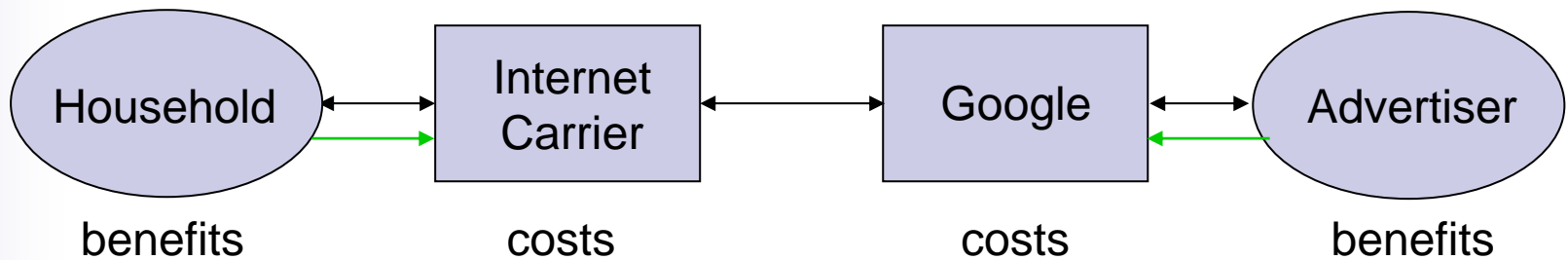


“Network operators cannot legitimately obtain payments from both end-users and providers of Internet content, applications, and services for use of the same network facilities.”

Economic basis for this claim?

Green arrow indicates financial flow.

Google and others want bill and keep.



But there is no general theorem that $a = 0$ is optimal.