The new document “Approach on appropriate remedies in the new regulatory framework” (2004) jointly published by ERG and EU, identifies, among several competition problems related to the market of mobile telephony, the strategy of price discrimination between on net and off net calls. Through such strategy the incumbents could get a competitive advantage because the price discrimination can represent a strategic leverage in order to increase the customers brand loyalty and to win subscribers of the rival operators. Moreover, the incumbents may attempt to foreclose the market by charging a high termination charge to other operators while, implicitly, charging a low price for on net termination internally.

Following the ERG document, an European debate on the problem of the price discrimination has issued. The positions assumed by the operators depend, obviously, from the owned customer base. The competition problem underlined by the ERG document is that the price discrimination can involve positive network externalities for incumbent operators. In fact, such strategy has as implication that customers of larger network pay less than smaller network customers, volume of calls being equal. So the decision to change network is due to two main reasons: the first is linked to pricing; the second depends on market share. In fact, even if a network fixes its on net calls price relatively low, but has a market share of small dimensions, the change of network would not therefore be convenient for customers that would have a very low probability of carrying out calls on net.

Therefore, the incumbent customers enjoy the advantage of having an higher probability to call on net at a lower price while, the follower customers are moved, for the same reason, to choose the incumbent.

In order to resolve the problem of the discrimination between on net and off net prices and to promote the competition, the ERG has individualized some remedies concerning interconnection charges, such as the obligation to apply cost oriented interconnection charges and to fix asymmetric interconnection charges.

The focus of this paper is the analysis of the convenience by mobile telephone operators to choose a price discrimination strategy. The goal of such analysis is that of verifying if the price discrimination strategy causes a different impact in terms of profits and market shares according to relative dimensions.

We aim to formalize the complex competitive environment of network interconnection in the mobile telecommunications market. In particular, we describe a competitive model characterized by the strategy of price discrimination based on the possibility for the mobile networks to set different retail prices with regard to calls made on-net or off-net. This strategy can involve a different impact on profit and on market shares due to various variables such as the brand loyalty, the demand elasticity of consumers and the degree of substitutability among networks. So, we aim to analyse of the impact on prices, profits and market shares deriving from variations in some critical variables: brand loyalty, degree of substitutability, elasticity of demand, cost structure.

The gap between on net and off net prices could generate positive network externalities that involve the growth of the incumbent market share and the follower exit from the market. Such possibility suggests possible regulatory interventions in order to assure market competition. So, another goal of
this paper is the analysis of the possible solutions in the regulatory framework. In particular, we aim to study the impact of a possible regulatory remedy based on the hypothesis of asymmetric interconnection charges.