

# Bargaining, power and the net neutrality problem

By Claudia Saavedra

Discussion: María Fernanda Viegens (FEDEA)

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## Basic ideas

- Two internet access providers and consumers who want to have access to online content
- Profits and incentives to innovate and invest, of content and access providers are not necessarily opposing
- A content provider, who might have market power, negotiates with Internet access providers for an investment contract to improve the quality of service that access providers set in the last mile for content

## Basic ideas

- Net neutrality regime: network operators and the content provider cannot have any form of agreement
- Unregulated regime: content provider can participate in the investment process by negotiating quality contracts with the operators
- The paper focuses on comparing quality investments outcomes in each regime

## Main results

- An access provider has incentives to negotiate with the content provider (C) independently of what the other access provider does, and independently of C's bargaining power
- When faced with a powerful content provider access providers face a prisoners dilemma
- Effects on quality(provided that network operators are not too substitutable)

Simultaneous contracts: quality higher with no regulation

Exclusive contracts: average quality higher with no regulation

- In a shared market equilibrium consumer welfare is higher under an unregulated regime than under net neutrality

Questions and comments: make an effort to clarify effect of regulation on welfare

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- **Access providers:** when faced with a powerful content provider access providers face a prisoners dilemma... **Does it mean that access providers would be better off under regulation?**
- **Content provider:** they are better off with no regulation and depending on bargaining power they choose exclusive or simultaneous contracts
- **Consumers:** proposition 10: In a shared market equilibrium consumer welfare is higher under an unregulated regime than under net neutrality...(provided low substitutability). **However, if the content provider is small there is a welfare loss due to exclusive deals**

## Questions and comments: make an effort to clarify effect of regulation on welfare

- If access providers are not too substitutable and content provider is not powerful result seems clear: total welfare is higher under the unregulated regime
- If access providers are substitutable? If content provider is very powerful?

## Questions and comments: Net neutrality definition

- Net neutrality regulation would impede joint investment: **Why a regulator may be concerned about an agreement in the investment process between Internet Service Providers (ISPs) and Content Providers? Exclusive agreements can be a problem... Simultaneous contracts?** (extend the analysis in “comment”, section 5)

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- Introduction: welfare is maximized if the content provider chooses to have simultaneous quality contracts... You say “competition authorities should be concerned with small content provider”.....**what is the effect of imposing an exclusivity ban?**
- You consider agreements on quality investment: real world examples?