Price Squeezes in a Regulatory Environment*

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Abstract
This paper analyzes the relevance and the scope of price squeeze tests in a regulatory environment. We distinguish between three types of *ex ante* regulation (full, partial or no regulation) to identify regulatory squeezes, predatory squeezes, and squeezes as foreclosure. We argue that policy makers should (i) use price squeeze tests as an *ex post* instrument, compatible with the *ex ante* regulatory environment, and (ii) focus on predatory price squeezes. We propose a predatory squeeze test that respects regulatory choices that have been made previously, in contrast with the earlier proposed tests. We extend our framework to ask at which aggregation level predatory price squeeze tests ought to be applied, a much-debated issue in telecommunications.

Key words: regulation, competition policy, utilities

JEL Classification: L40, L51, L97

1. Introduction

Price squeezes may arise when an incumbent firm sells a vital input to a number of downstream retailers, and at the same time supplies a competing retail service to consumers. The downstream retail competitors may then claim that there is a price squeeze if the margin between the incumbent's retail price and its wholesale price