

## Second European Conference on Competition and Regulation

Corfu, 13-14 July 2007

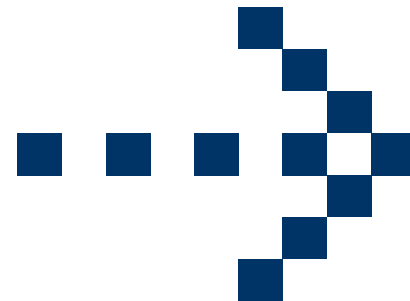
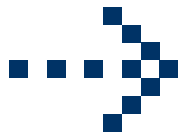
‘The Regulation of Access in Telecommunications – a  
European Perspective’

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# European regulatory framework for telecommunications

## Three stages

- Identify markets for *ex ante* regulation (using Recommendation)
- Conduct market analysis -is there significant market power (SMP)?
- Select remedies (specified in Directives)

All conducted to date on basis of national markets

# Differences from competition law

- ❖ *Ex ante* instead of *ex post*
- ❖ Loose criteria for mandating access. Not *Bronner* indispensability, but *‘denial would hinder the emergence of sustainable competition at the retail level, or would not be in the end-users’ interests’*

*But, regime defaults to competition law in the absence of SMP*

# The different contexts for regulation of broadband

No. of networks	0.X	1.X	2.X
Wireless platforms of uncertain speed/capacity		→	→
No fixed telecom network		DSL available (nearly universally)	→
No cable network		→	Cable network
Examples	Parts of accession Countries	Non-cabled parts of UK; most of France, Italy, Spain, Hungary, etc.	USA; Belgium; cabled parts of UK
% of households	0-5%	60-70%	25-35%

# Application to current generation broadband

The implied procedures (conflating stages)

- Examine end-to-end value chain supplying retail markets absent regulation: is there (prospectively) major detriment to consumers/dominance?
- If yes, establish wholesale market definitions and identify least replicable input; devise suitable remedy; has it 'solved' end user problem?
- If yes, stop; if no, continue

# Ladder of investment –in market definition and remedies

Subloop
Loop (1000)
Regional bitstream (50)
National bitstream (1)
Access to WWW
Retail

# The regulatory outcome in Europe

Two recommended markets:

Unbundled loops (universal SMP)

Wholesale broadband access/bitstream

(SMP everywhere, save the Netherlands)

(Note Commission's treatment of cable bitstream and ULL)

In other words: extensive access regulation in principle; held up in many countries, eg.

Germany, Ireland.

# Spread of broadband –millions (EU15)

	July 2003	July 2006
Total	17.5	66.3
DSL	12.5	56.4
Cable	4.1	10.1
Other	0.9	1.3
DSL total	12.5	56.4
Incumbent	9.6	31.4
Non-incumbent	2.8	25.0
Resale	1.5 (54%)	9.1 (36%)
Bitstream	0.7 (23%)	3.9 (16%)
ULL	0.7 (23%)	12.0 (48%)



# Access regulation and the spread of broadband

Econometric studies:

Dispaso, Lupi, Manenti (IEP 2006)

Model of differentiated oligopoly

tested on 14 EU countries 2000-2004

interplatform competition significant; intra-platform insignificant

Wallsten (AEI Brookings 2006)

Data for 30 OECD countries 1999-2003)

Relates penetration to availability of ULL, bitstream, resale and demand side variables

Resale -ve; bitstream 0; ULL (sometimes) +ve

# Investment data 2001-2004 (€bn)

Fixed telecoms	74.0 (47%)
Mobile telecoms	69.8 (44%)
Cable	6.4 (4%)
Broadcasting	8.3 (6%)

# Policy issues for current generation broadband

Has access regulation led to adverse results?

- Econometric evidence: neutral, may favour ULL
- Investment data: inconclusive
- International benchmarking: quite favourable

Is there enough cable competition to permit deregulation?

- European cable networks are underfunded and (often) obsolete
- Exception in Spain

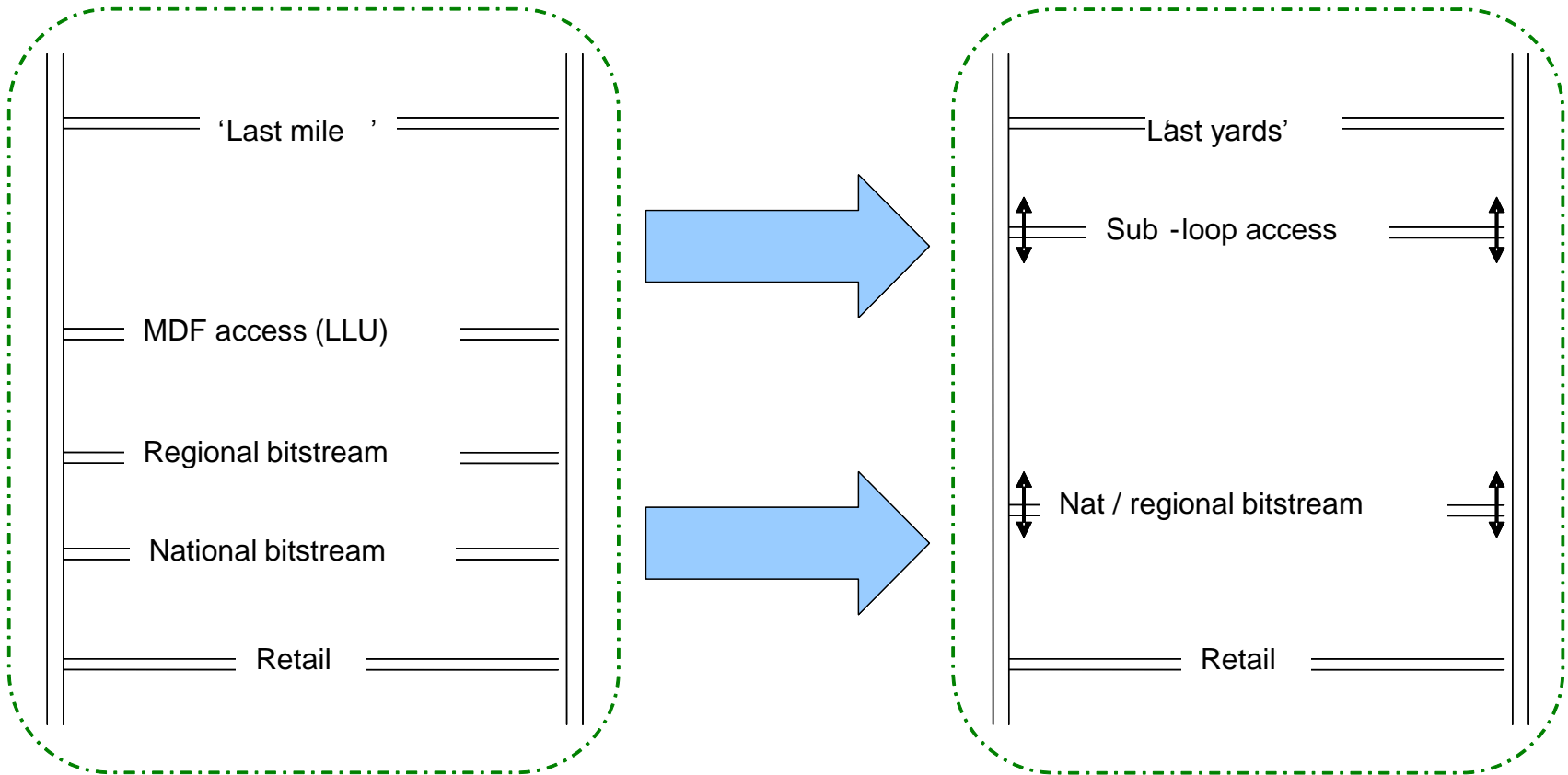
Has access regulation hampered full competition?

- Clear theoretical possibility
- Little clear evidence

# The consequences of new technology IP networks

- Core networks: aggregate traffic, reduce costs
- Access networks: enable new services, fundamentally change network architecture, vary access points

# Double ladder -Changes in access points



# Three regulatory episodes

USA: forbearance from 2001; heavy investment in fibre to home and cabinet

Australia: proposed by Telstra to build FTTN in major cities: ACCC

indicates it will impose access at higher cost of capital (10.3% instead of 8.9%); Telstra cancels plans

Germany: regulator initially exempts DT's fibre networks; EC objects – same retail market; access remedy imposed; Bundestag debates legislative exemption

# The wireless option

Mobile broadband currently outside fixed markets – largely through price differentials

Commission's spectrum proposals should enable Wi-Max, services beyond 3G etc.

Economics not yet demonstrated

# A summation

Need to facilitate further deepening of infrastructure competition

- wireless opportunities
- cable 'revival'
- access architecture threats

Ways forward

- spectrum management
- remove cable disadvantages
- make DSL competitors review their strategy
  - geographical markets
  - access prices
  - withdraw products
  - access to infrastructure
  - no subsidies for stranding



