

# How Telecoms Regulation Can Support Businesses

OECD Workshop on  
Fibre Investment and Policy Challenges

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# Background

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In 2007 BT sponsored a major study entitled:  
***“The Economic Benefits from Providing Business with Competitive Communication Services”.***

It found that:

- Global competition is intensifying
- The EU is lagging behind other competing economic zones
- Effective use of information and communications technologies can transform business performance
- EU Regulatory framework must promote competition in business markets, not just for residential consumers markets

# Trade in services as well as internal rationalisation

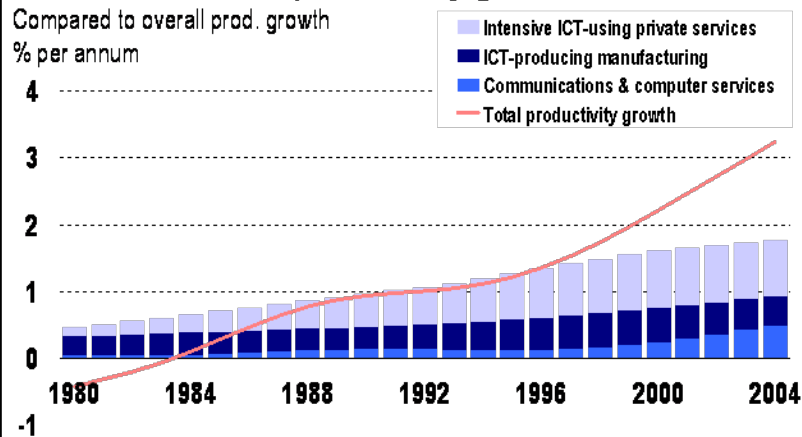
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- Services account for 70% of EU employment and value-added but only 20% of intra-EU trade
- Cross-border tradability of high-value knowledge-intensive services – design, finance, purchasing, IT, legal advice, marketing etc – is nevertheless potentially high
- Note that
  - such services account for high portion of value, even of physical products which may be manufactured outside EU
  - in contrast to haircuts and plumbing, no need for these services to be produced in place of consumption

# ICT Contribution to Productivity Growth

## ICT contribution to productivity growth, US

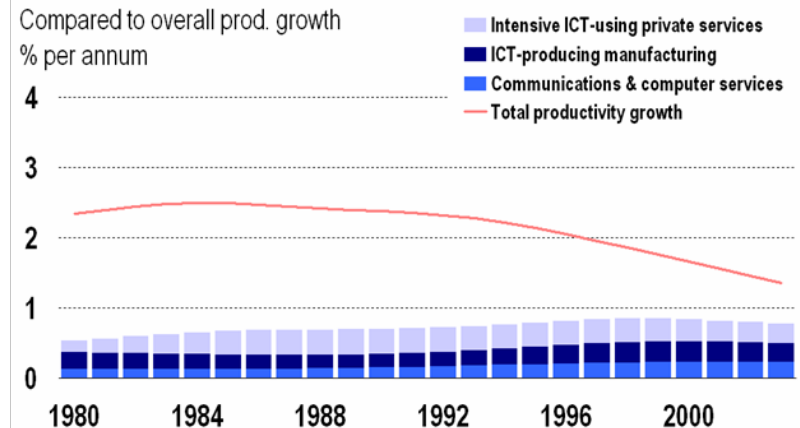
Compared to overall prod. growth  
% per annum



Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

## ICT contribution to productivity growth, EU-15

Compared to overall prod. growth  
% per annum

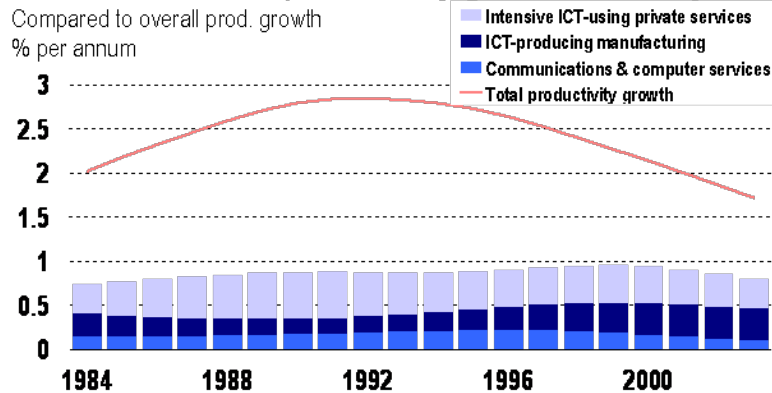


Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

# No Convergence in the EU

## ICT contribution to productivity growth, Germany

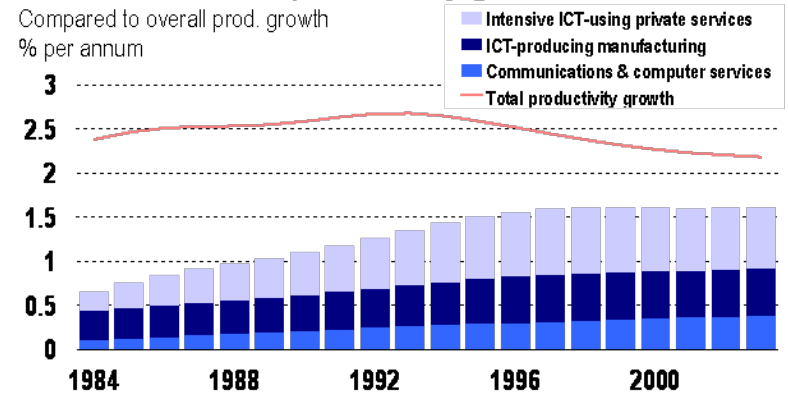
Compared to overall prod. growth  
% per annum



Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

## ICT contribution to productivity growth, UK

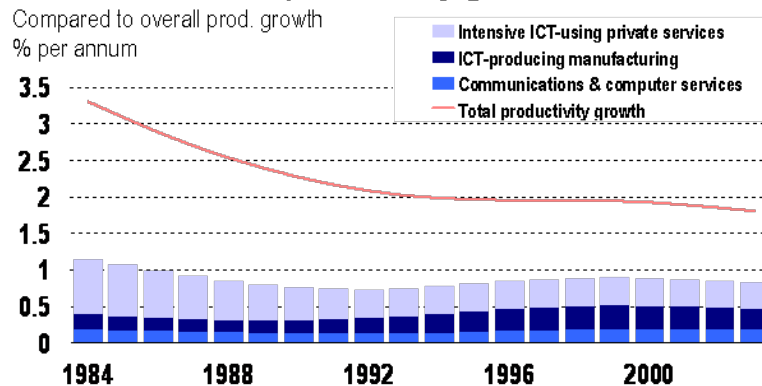
Compared to overall prod. growth  
% per annum



Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

## ICT contribution to productivity growth, France

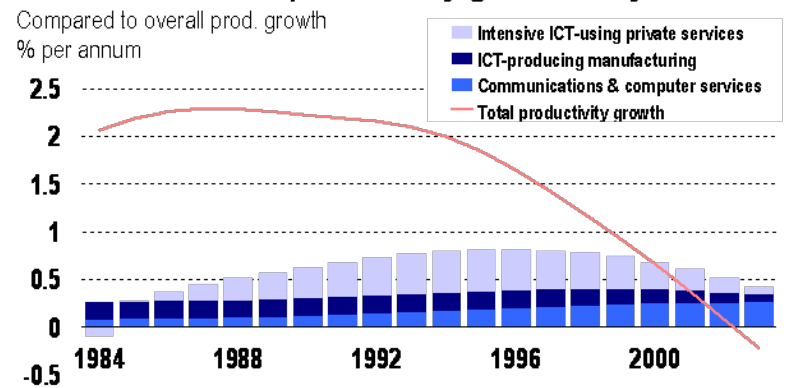
Compared to overall prod. growth  
% per annum



Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

## ICT contribution to productivity growth, Italy

Compared to overall prod. growth  
% per annum



Source: Indepen, GGDC data (smoothed using Hodricks-Prescott filter)

# Why is the EU Failing to Benefit Fully from ICT?

- **Irrelevant**

- ICT sector similar size in US & EU, and size not correlated with ICT related growth
- Broadband is too recent to explain productivity differences up to 2003
- Lack of investment in ICT capital, ICT R&D and ICT skills?
- BUT investment reflects return, so why are returns low?

- **Relevant**

- Economic flexibility and “creative destruction”
- Connectivity – potential transformation and separation from service and applications

# ICT is an “Enabling Technology” for EU Business Productivity

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**The study showed that effective use of information and communications technologies can transform business performance**

- But to maximise these benefits
  - Needs to be EU-wide business service competition to deliver the best ICT products & services and support market driven changes
  - EU Regulatory Framework must promote competition at the business service level, not just at residential level

# Businesses require “Ubiquitous ICT Connectivity”

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Corporations require dedicated connectivity offering

- guaranteed levels of security and quality of service
- seamless applications and services
- Continent-wide connectivity easily available on basis of single contract in US
- The key obstacle to ubiquitous connectivity in EU is obtaining necessary inputs and, where available, on the right terms and conditions

# Providers of Ubiquitous Connectivity Face Major Obstacles

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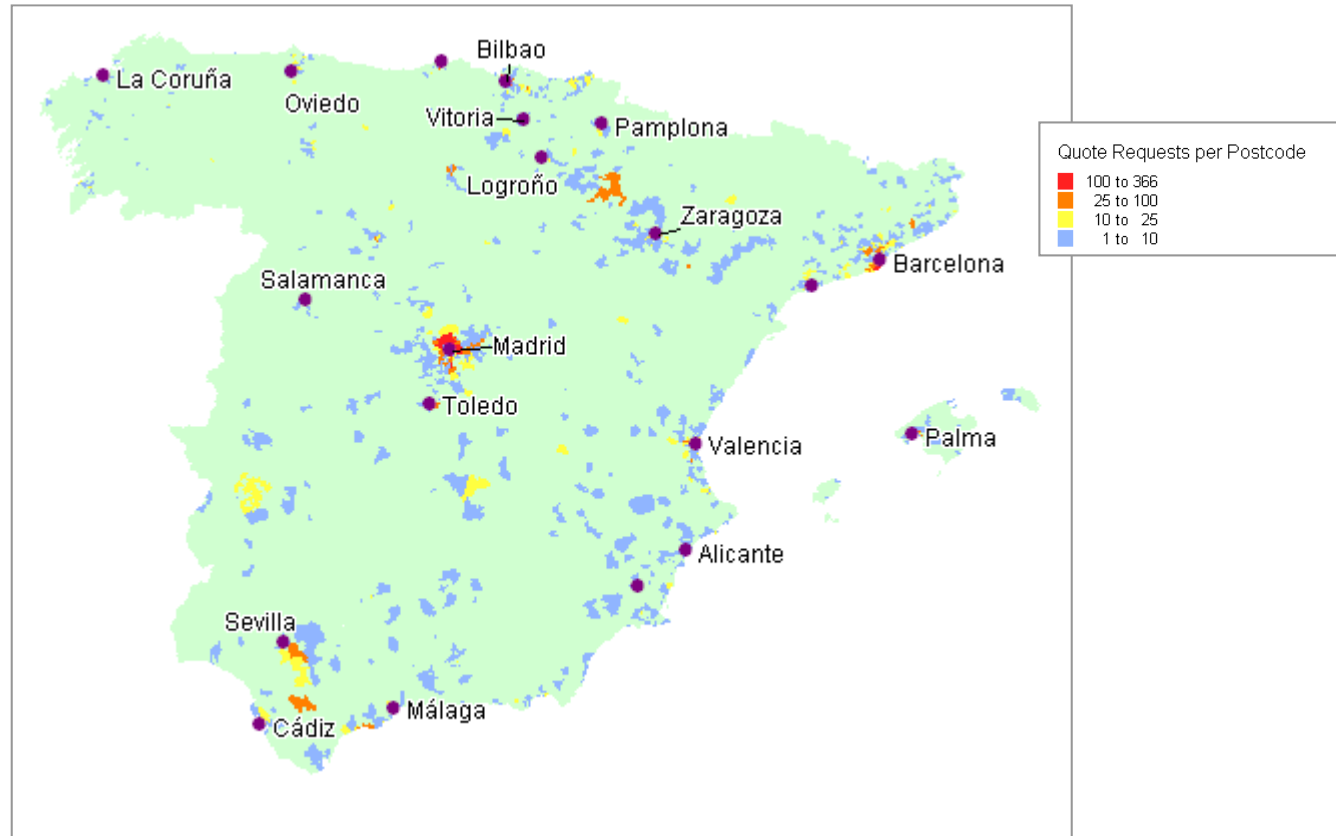
- Local access links are key input (around 40% of costs)
- Outside major cities, links available only from monopoly supplier
- Current regulation fails to guarantee pan-EU supply of key business service inputs under fair, reasonable, non-discriminatory conditions:
  - eg, bitstream, Ethernet PPCs, MVNO: access not available in all Member States

# Fixed Access

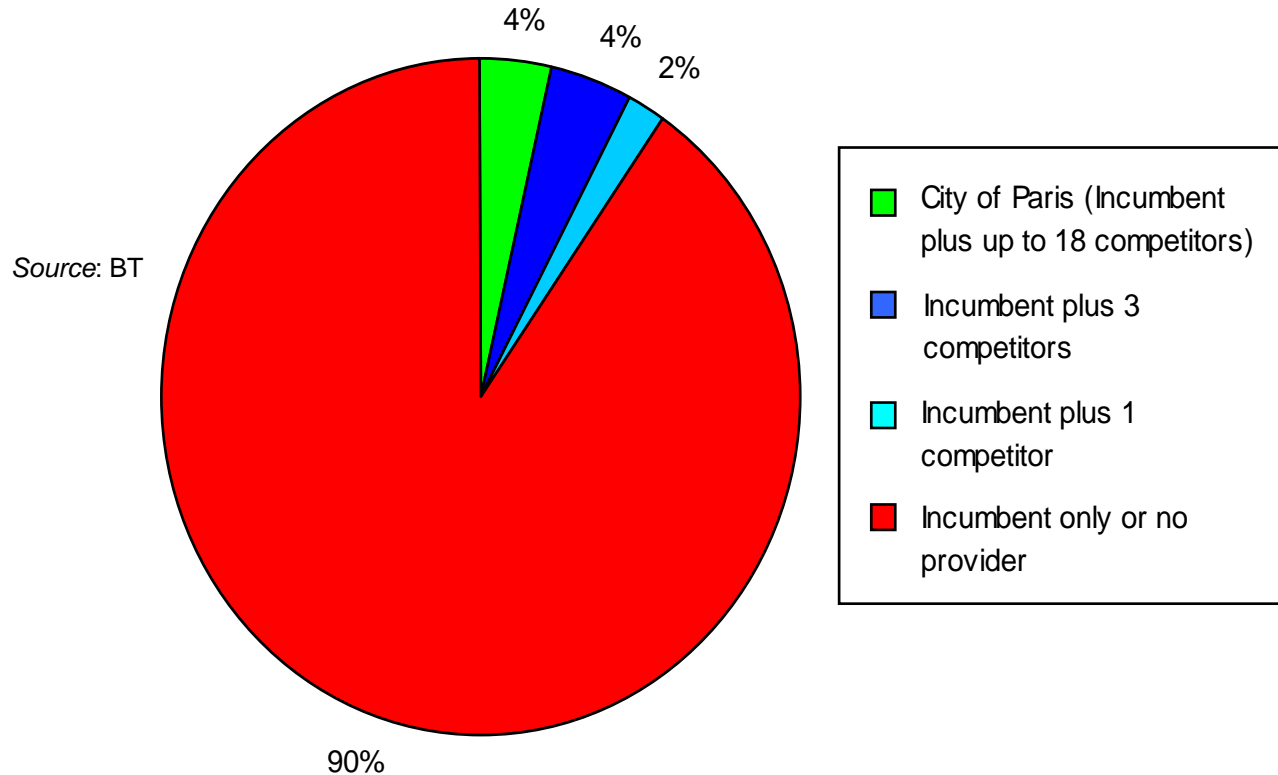
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- Business Demand For Network Access -
  - Highly geographically dispersed
- Fixed Access Competition Is Geographically Limited
  - Fibre restricted to large business centres
  - Entrant networks may be little more than a PoP
- LLU Is Not Of Much Interest To Businesses
  - Insufficient businesses located on any 1 exchange
  - Geographically limited < 50-60% of exchanges
  - LLU operators focused on residential not third party provision
  - NGA will undermine current use of LLU

# Example Of Dispersal of Demand – Terminating Segments Leased Lines (BT)



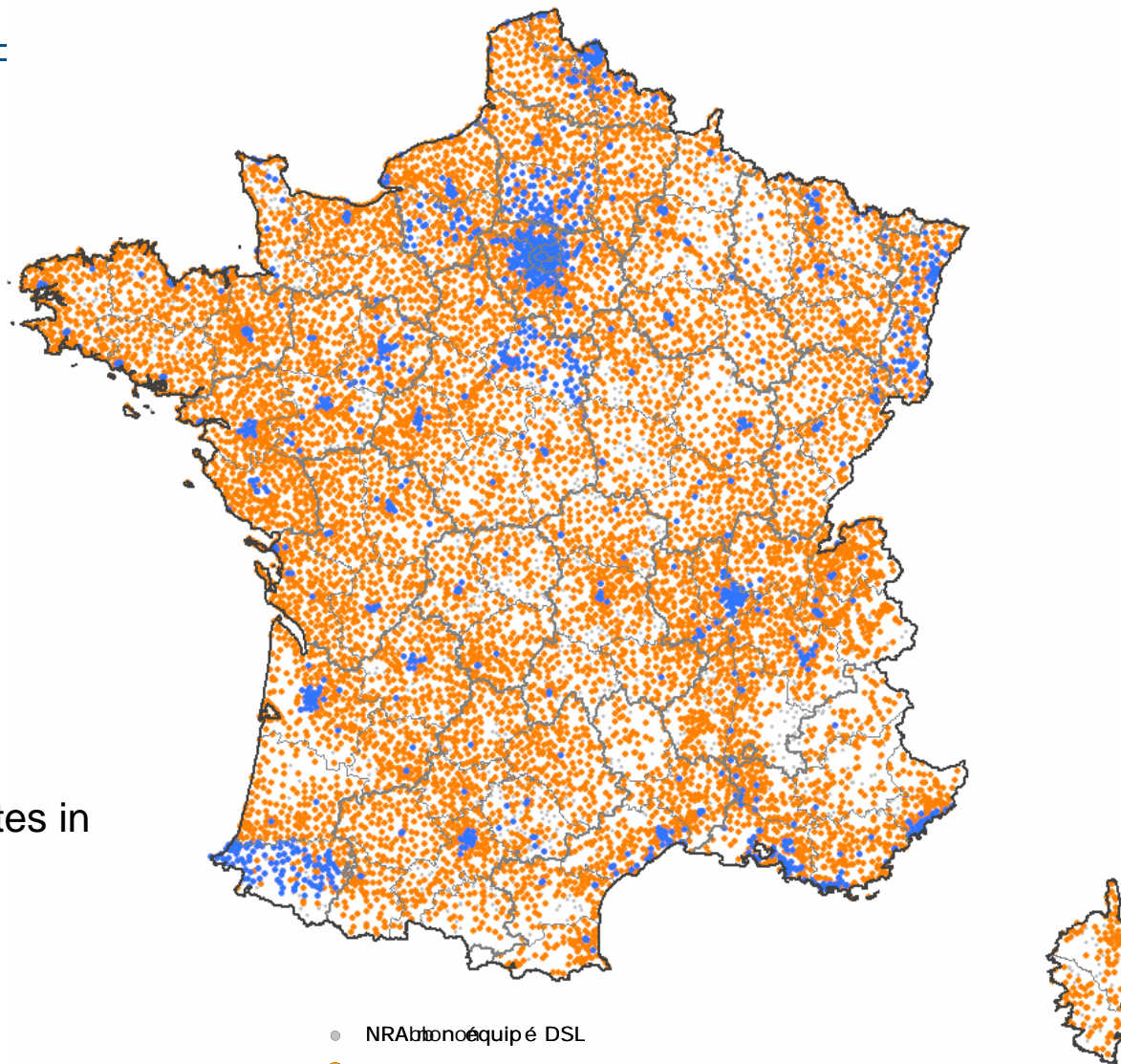
# Coverage of Business Fibre Access Operators (by population) Example of France



This chart indicates that on the basis of population, which will be correlated to a degree with the number of businesses, only very small areas of France are accessible by competitive fibre networks.

# LLU Will Always Be Partial

## - LLU & Bitstream Availability in France



LLU & DSL sites in  
France  
October 2006

- NRA non équipé DSL
- NRA équipé DSL par FT
- ... et par un opérateur d'agregateur

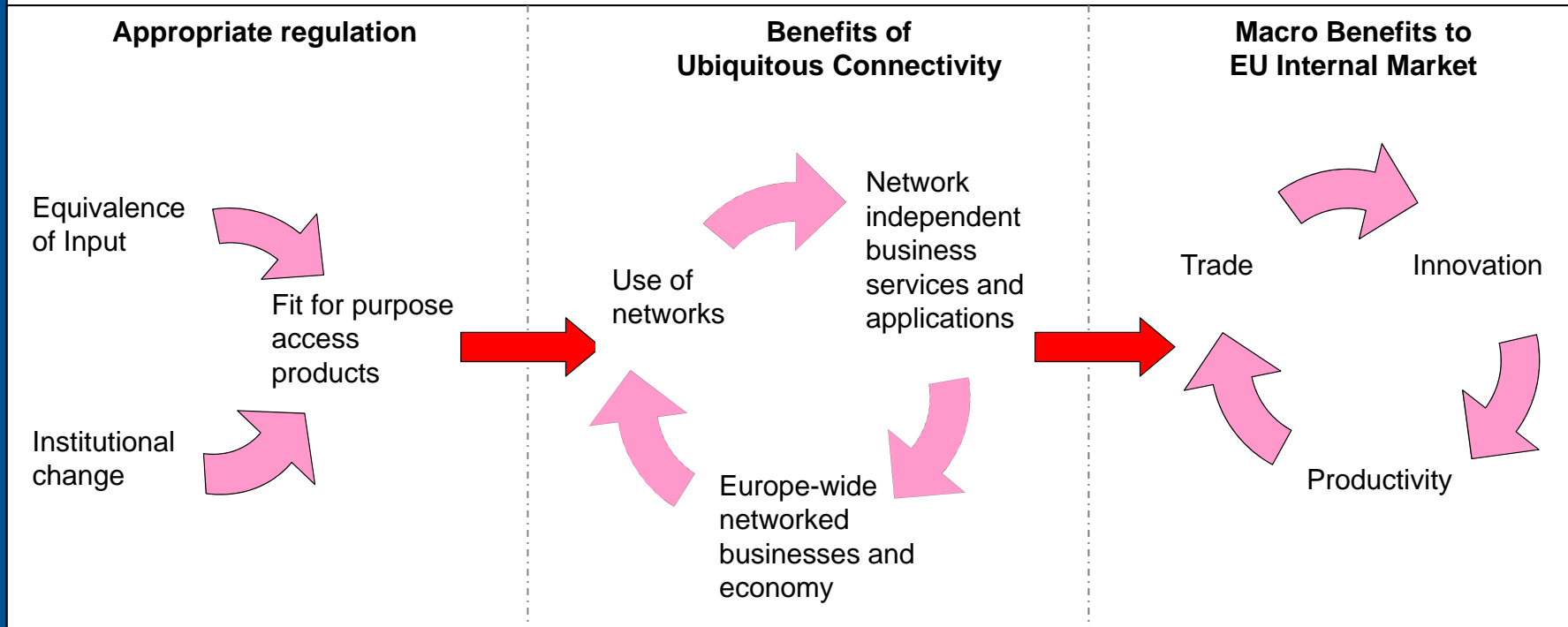
## 2008 Study:

# *Productivity, Growth and Jobs: How Telecoms Regulation Can Support European Businesses*

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- In their follow-up study Indepen Consulting have now quantified the economic benefits from effective pan-European communications services.
- Their findings are based on in-depth discussions with five EU-based multinational enterprises and a survey of managers working in BT's Global Operations.
- The study estimates that ubiquitous access - ie provided on a competitive supply basis right across the EU - together with complementary measures, would generate benefits with a net present value of between **€1100 billion** and **€1300 billion** over the next 20 years.

# In Summary...



# The NGA Case - Key Challenges and Conclusions

- Clear Fibre Opportunity and Case in Greenfield Scenarios
  - To Build and Test New Market and Business Model
- Most NGA Solutions are delivered by Vertically Integrated Providers – who link new application revenues to infrastructure investment
- NGA with Functional Separation requires:
  - Regulatory certainty
  - Effective Commercial and Business Models which match long term infrastructure investments to shorter term retail cases
  - An industry consensus on the demand and the approach
  - Effective wholesale access products
  - Well-developed retail products
- Volume and Scale are critical for all in the industry.
- Whatever happens expect a mixed-economy model for a considerable time.

# The Myths of Functional Separation – 1

## 1. Suppresses investment

- Return on investment is determined independent of FS
- Greater certainty supports wider investment from incumbent and entrants

## 2. Suppresses investment in fibre

- UK is leading in fibre deployment
- UK committed to green-fields FTTP on an EOI basis – no “Regulatory Holidays”

## 3. Creates a monopoly

- EOI only for enduring bottlenecks – i.e. exiting monopoly
- Entrants free to invest where opportunities exist / business case work

## 4. Duct sharing is a better alternative

- Practical issues rule it out for more than a select few

How is equivalence of access to be delivered? FS?

# Thank You & Questions

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2007 Report: *The Economic Benefits from Providing Business with Competitive Electronic Communications Services*

<http://www.btplc.com/Thegroup/Regulatoryinformation/Consultativeresponses/BTdiscussionpapers/Electronic/index.htm>

2008 Report: *Productivity, Growth and Jobs: How Telecoms Regulation Can Support European Businesses*

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