

# Sustainable competition through fibre deployment

CCP CISP Workshop on Fibre Investment and Policy Challenge

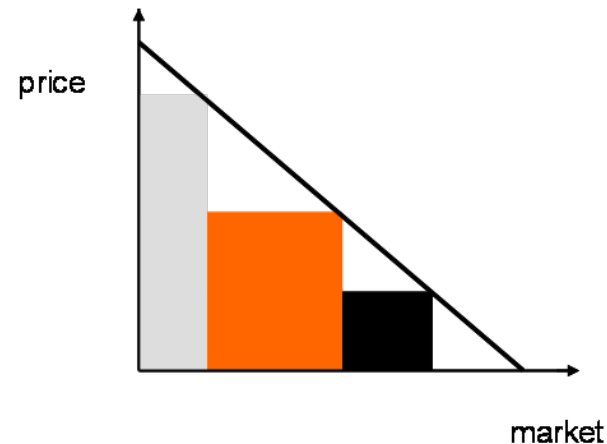
Stavanger, 10-11 April 2008

# What regulation, chicken & eggs have in common?

- Technology (xDSL + IP) revealed the hidden value of the old copper loop
- Access regulation was indeed a no-risk solution to maximise this value while enabling service-based competition
  - exogenous, applied to an existing network, already rolled-out and largely depreciated
- Regulation becomes a much more risky exercise
  - endogenous, applied to assets that do not exist and may never exist if the policy approach is wrong
- Need for fresh guiding principles
  - What is the new role for regulation?
  - Conditions for NGANs deployments (where are the bottlenecks?)
  - What are the deepest levels of sustainable competition?

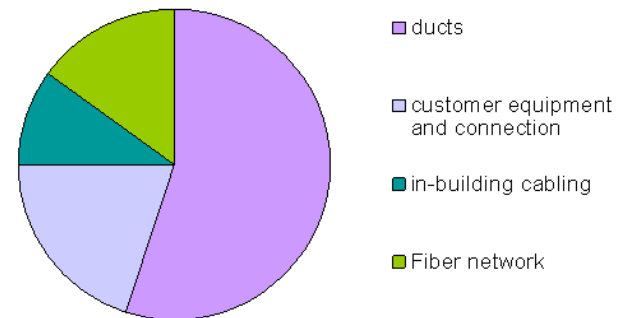
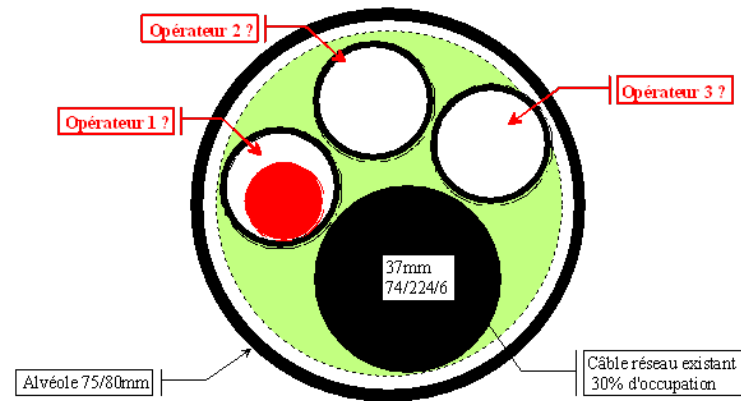
# Competition in the fibre access loop is desirable

- A unique “greenfield” opportunity to overcome the monopolistic structure of the copper legacy
- Empiric evidence of the benefits of platform-based competition : mobile!
- Access regulation would kill the key incentives
  - First mover advantage
  - Planning flexibility & innovation
  - Commercial flexibility



# Competition in the fibre access loop is possible

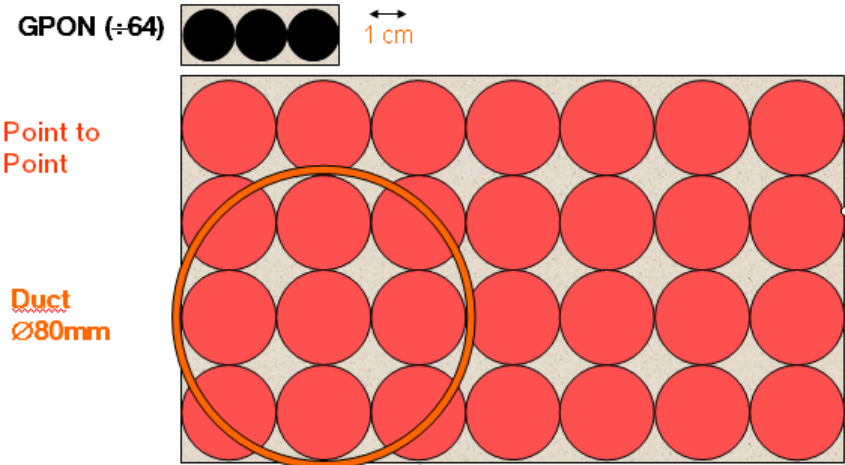
- Tapping a gold-worthy resource : vacuum
- Horizontal fibre represents a modest part of the overall investment
- Ensuring the re-use of the major cost block of any fixed local loop roll-out: civil works
- Key elements of public policy and active NRAs' involvement
  - Access to passive infrastructure (ducts & poles)
  - Facilitating access to the “vertical” bottleneck



# Economics of FTTH


- A manageable investment if existing civil-works are re-used (GPON, not P2P)
- Access to existing ducts makes at least 2/3 of the market addressable through FTTH
- The direct cost of competitive roll-outs is small compared to the benefits derived from competition
  - less than 100€ per household passed for 3 networks covering 50% of the market in a country like France.

Assumption : 20 000 clients



# Competition in the access loop is becoming a reality, through FTTH/FTTB

Households passed Capex

	2008: 2M 2010: 9M	€200M/ year
	2009: 1M	€300M/ €400M in 08/09
	2009: 1M	€300M in 08/09
	2008: 200m	€270M in 07/08

Source : operators






# The roadmap to competition & investment

- Promote competitive roll-outs wherever possible
  - Addressing the key bottlenecks (ducts, vertical in-house cabling)
- Allow voluntary sharing agreements to accelerate coverage
  - Does not imply that competition is not sustainable
  - No “last mover” advantage!
- Consider regulation only in the absence of competitive outcome
  - Access at the deepest level of sustainable competition
  - New forms of “wholesale”
  - New approach of time and risks

# Functional Separation is the surest way to slow down the roll-out of NGANs

- Creates a wait/wait situation due to the “last-mover advantage”
  - Vertically-integrated operator unwilling to bear a regulatory risk on top of the technical/economic risks
  - Potential competitors in the access loop know they are protected against a competitive roll-out and are interested in keeping ROCE high (and CE low..)
- Re-creates the classical “hold-up problem” (Crandall, Sidak, Cave) in the absence of vertical agreements
  - Will the separated entity – or its shareholder(s) - risk a €bn investment if access seekers keep the possibility not to purchase or to re-negotiate prices?
- Coordination with the separate entity would require agreements between service providers (geography, timing, product, pricing) that are illegal under competition law

## Insiders views on functional separation

- ***“functionally separated entities are artificial regulatory creatures ... and are therefore sources of instability and inefficiency. The fast technological evolution is incompatible with the stable regulatory frontiers implied by functional separation. **If the access network is separated from the retail market, incentives for investment, quality and cost efficiency may be lost. A separated and regulated network operator is in fact a permanent monopoly.**” (DG Enterprise)***
- ***functional separation risks harming investments in a sector which is crucial to the EU’s competitiveness ... a separated company may loose economies of scale and other efficiencies linked to the coordination of wholesale and retail operations. **Functional Separation may in particular discourage investments in NGN’s.**” (DG Competition)***

thank you

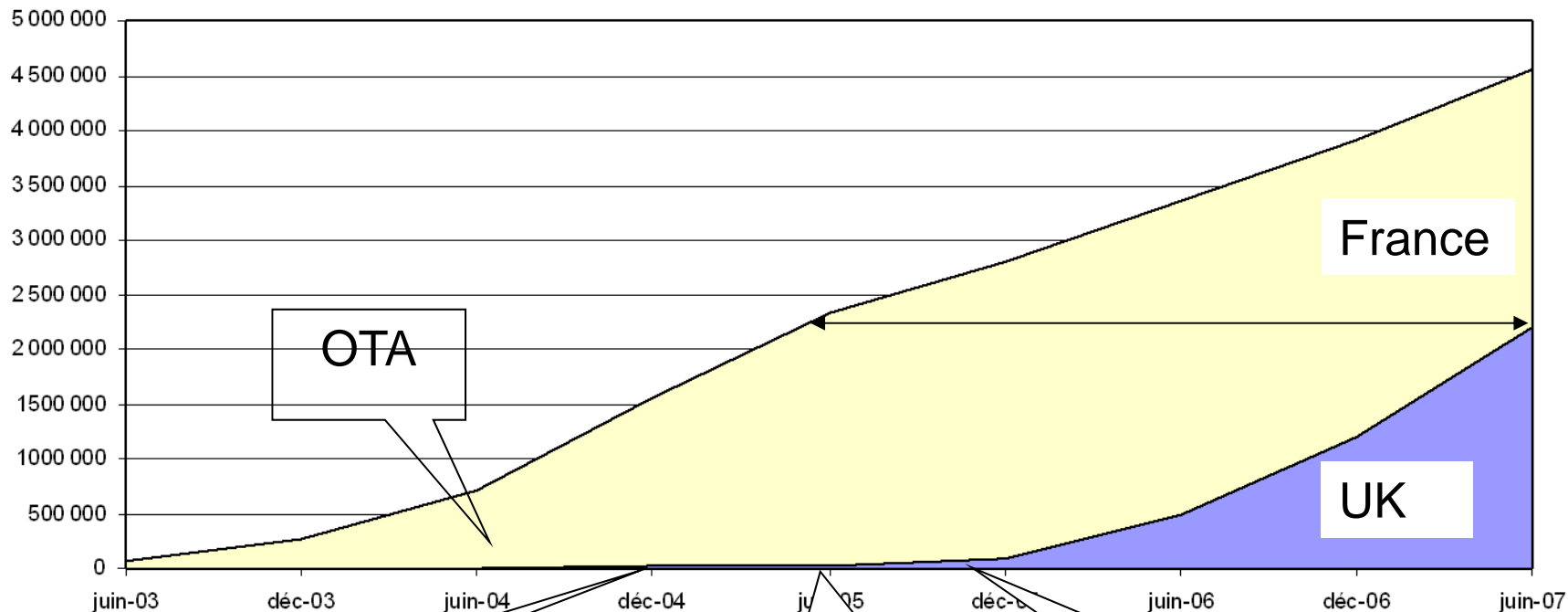


# What Ofcom said about separation applied to copper

- Delivering to customers?
  - “satisfaction with internet services has declined”
  - “required service levels are still not being met”
  - “Customers have also suffered because BT’s required focus on delivering against The Undertakings has diverted effort from other operational areas”
- Delivering on innovation?
  - “platform is becoming a bottleneck in the delivery of new products”
  - “development process is not fit-for-purpose”
  - “Openreach has not yet developed the sort of pro-active and innovative approach to product development”
- Delivering Equivalence & Non-discrimination?
  - “we are concerned that the full benefit of equivalence has not been delivered”

# Triggers of successful unbundling : sound pricing probably more important than separation

LLU lines (full + shared)



OTA

France

UK

UK

June + Dec 2004: BT shared access prices lowered by 70%

23 June 2005 / three-fold announcement by BT:

- Undertakings
- Full LLU prices lowered
- Commitment to stability of IPStream prices

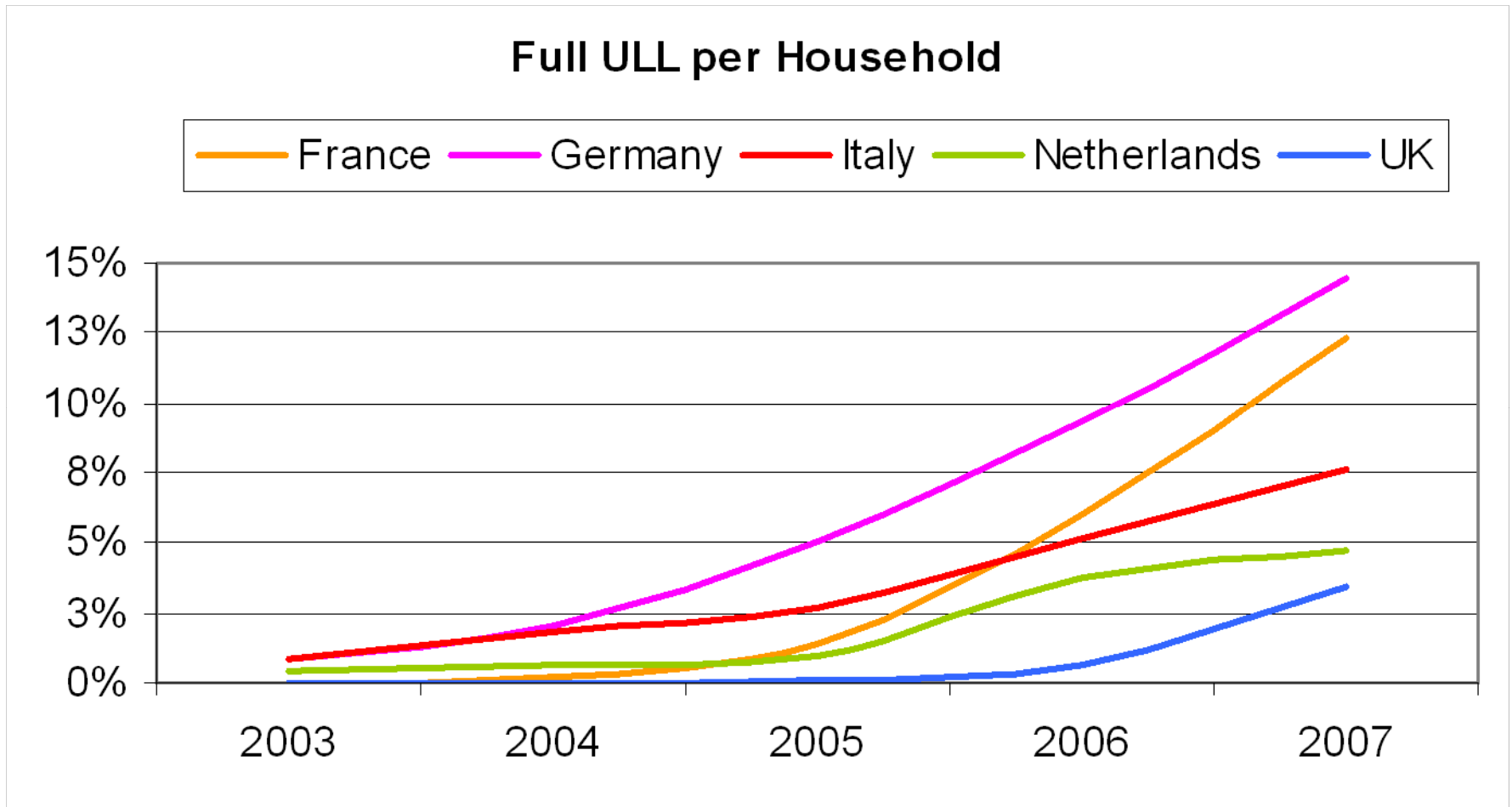
Nov 2005: Ofcom sets a new ceiling for full LLU (prices decrease by 24%)



Source : ARCEP, OTA



# Full LLU in Europe: today's deepest level of competition



Source : ECTA, EU

# Europe is at risk of loosing ground on fibre

