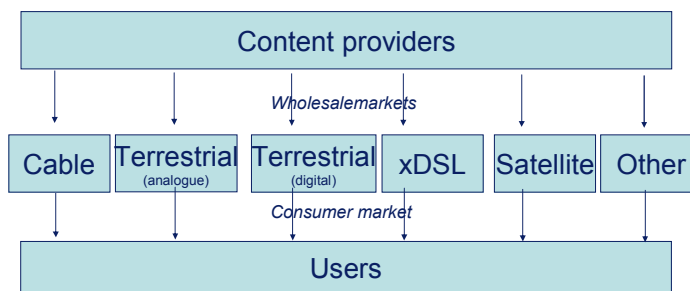


Broadcasting and Telecom: Will Competition Bring More Innovation?

Towards Regulation For Emerging Markets



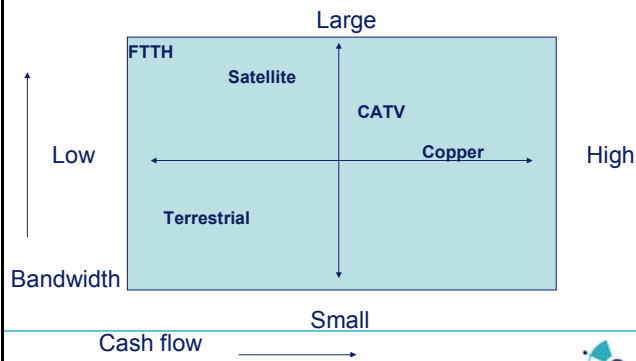
Broadcasting Markets and Infrastructures



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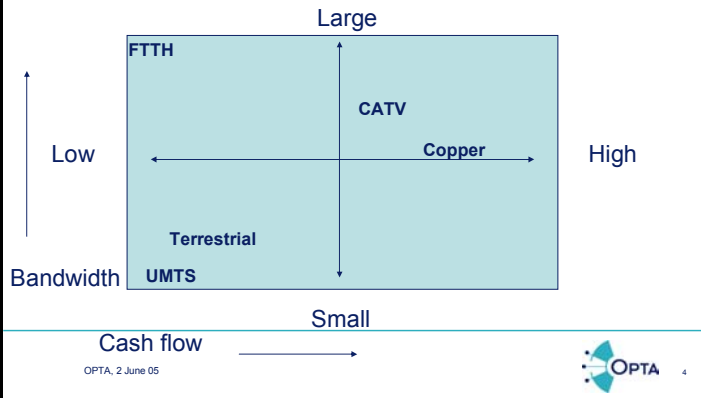
Infrastructure comparison for video services



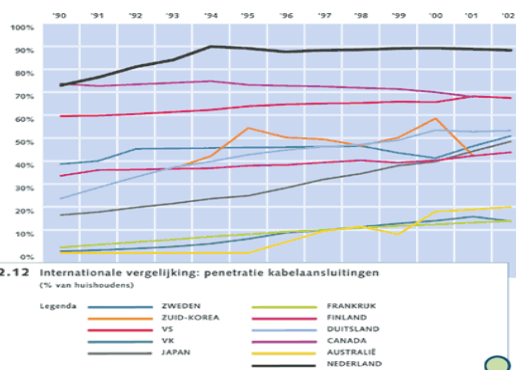
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Infrastructure comparison for Broadband services



Cable Penetration In OECD-countries



Broadcast Markets Dominated by Cable

- Incumbent telecom operators will enter for defensive reasons (Neth, Bel, USA)
- Content providers only interested in broadcasting because of advertisements and scale
- Other broadcast operators only if access to dominant networks: greenfield operators unlikely

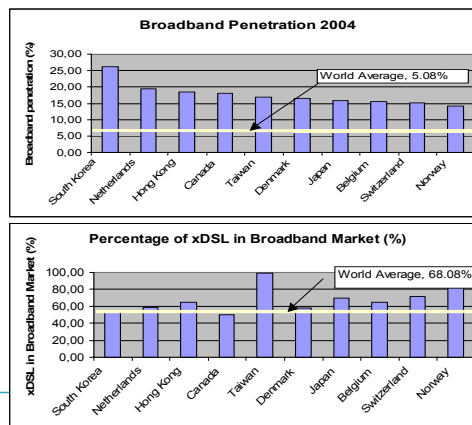
Broadcast Markets Dominated by Satellite or Terrestrial Networks

- Incumbent telecom operators enter only if margins are high
 - Offensive (e.g., Italy, Spain)
 - Otherwise no entry (France)
- Access to content can be barrier to entry
 - Cable in UK
 - xDSL-altnets in the Netherlands
- Greenfield operators not likely
 - Cable or FTTH too expensive

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Broadcasting operators into telecoms?



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Broadcasting operators into telecoms?

- Broadband internet access: leveraging video services
- VOIP: the promise of one subscription
- Triple play via cable: innovation?
 - Leveraging (access to) video into (access to) telecoms
 - Other video services dependent on DRM-issues?
 - Other telecom services?

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Is This Innovation?

- **Competition in broadcasting from (incumbent) telecom operators**
 - Defensive or offensive
 - Leveraging possibilities: bundling
- **Competition in telecom from CATV operators**
 - Offensive
 - Leveraging possibilities in markets where cable dominates broadcasting
- **Where are the new business models, where are new services?**

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Identification Emerging Markets Key Issue

- **What is an emerging market?**
 - e.g., Broadband Internet Access on CATV?
- **Market Issues in converging markets**
 - Network externalities, leveraging possibilities
 - Legacy infrastructures vs new infrastructures
 - Established services vs new services
- **Regulatory issues**
 - Danger of overregulation
 - Danger of erratic regulation
 - Danger of underregulation

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Challenges for regulatory environments

- **Competition key for innovation**
 - Dominant operators must be challenged
- **Key targets for regulation:**
 - Foster innovation
 - Prevent market foreclosure
- **BUT HOW?**

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Proposed approach to emerging markets

Established services Emerging svcs

Legacy
infrastructure

New
infrastructure

Cell 1: Use EU-NRF	Cell 2: No ex-ante regulation
Cell 4: Major debate	Cell 3: No ex-ante regulation

Proposal:

- In Cell 1: standard market-analysis procedure decides when/how to impose ex-ante remedies
- In Cell 2: Competition-law constraints, but *no ex-ante regulation*.
Note: with leverage of market power from Cell 1 ⇒ regulate the established market!
- In Cell 3 and 4: In principle, no ex-ante regulation of (established or emerging) services on new infrastructure:

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Proposed approach (continued)

This approach:

1. does give investors in new technology platforms the incentives to invest, but
2. does not prevent the risk of re-monopolisation of retail markets as next-generation networks gradually replace legacy infrastructure.

Approach A+:

1. Identify the non-replicable assets of new-technology platforms: commercially senseless for entrants to replicate these (extension of ERG Joint Position on Remedies)
2. Focus ex-ante regulation on such non-replicable assets
3. Use competition law to discipline behaviour in service provision over these assets

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Conclusions

1. Telecommunication and broadcast markets converge
2. Convergence can easily become an incumbent's playground
3. This will not lead to "real" innovations
4. Regulation can in itself easily influence the market in an undesirable way
5. Ex ante and ex post regulation must be tuned towards each other to deliver innovation
6. Access to content may become an issue for regulators

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