

Competition in broadband provision and its implications for policy

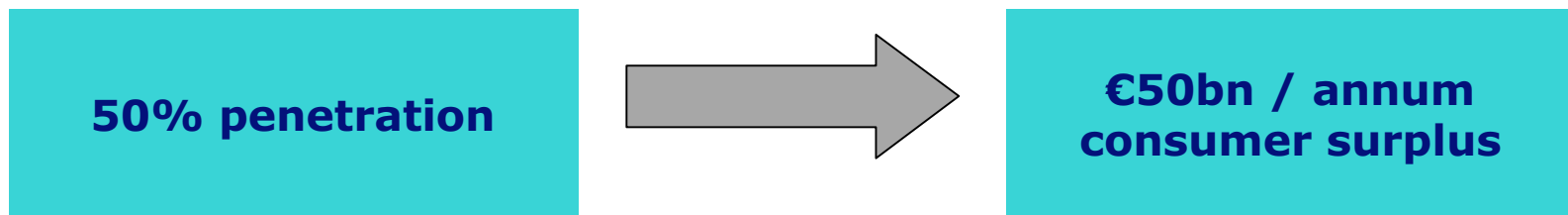
A study for the Brussels Round Table

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Why broadband policy matters



- ❑ Input into many sectors
- ❑ Impact on international competitiveness
- ❑ Enabler of the information society
- ❑ Large consumer benefits



Benefits of facilities-based competition



**Competing
platforms**

**Unbundled
loops**

**Bitstream
access**

Resale



Facilities-based competition

Real choice for customers

Downward pressure on costs

Internal efficiency

**Selection of best techniques
and technologies**

Spillover benefits from innovation

Access-based competition

**Competition over only
part of the value chain**

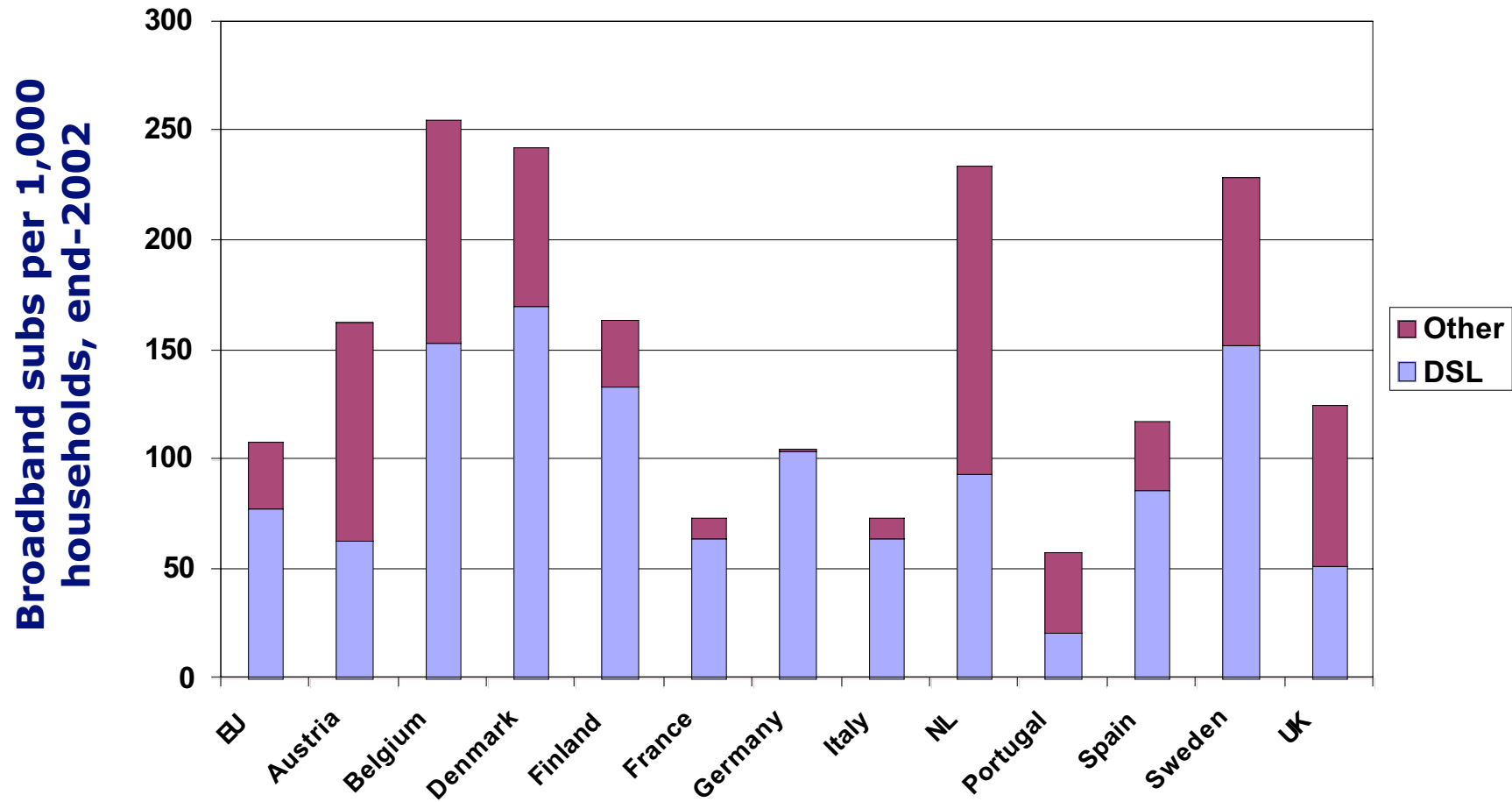
Little diversity or real choice

Technological monoculture

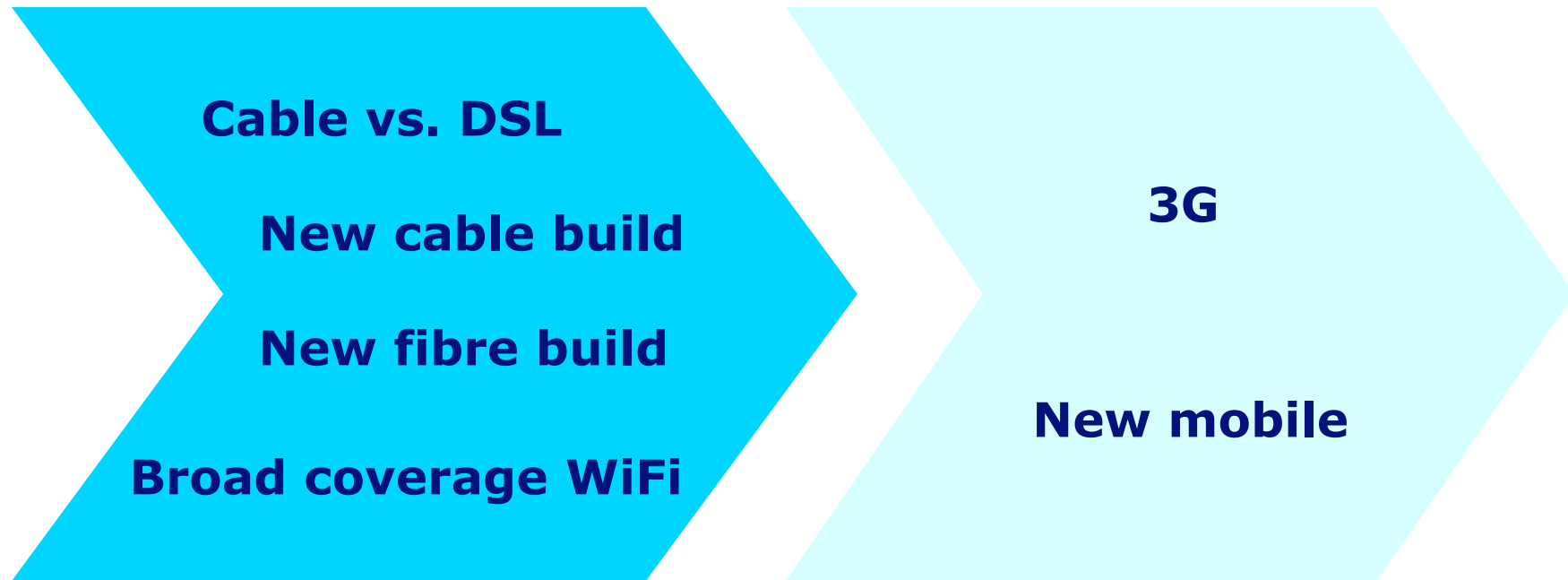
Unsustainable business cases

Facilities-based competition is preferable where it is feasible

Competition between different platforms already exists ...



.. and future increases in platform competition are feasible



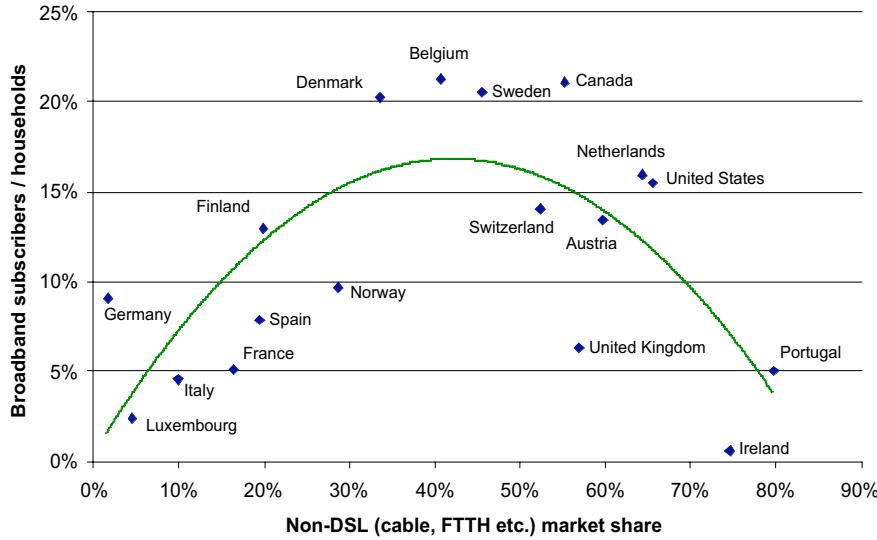
+ Local loop unbundling as a regulatory backstop providing some facilities-based competition

Platform competition key to broadband penetration

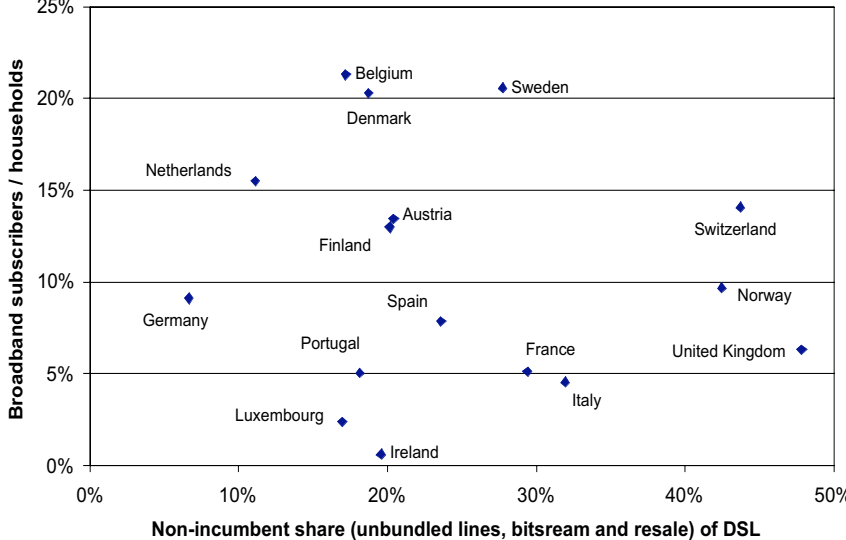


**Mass-market penetration driven by
...platform competition...**

...not regulated access



Penetration



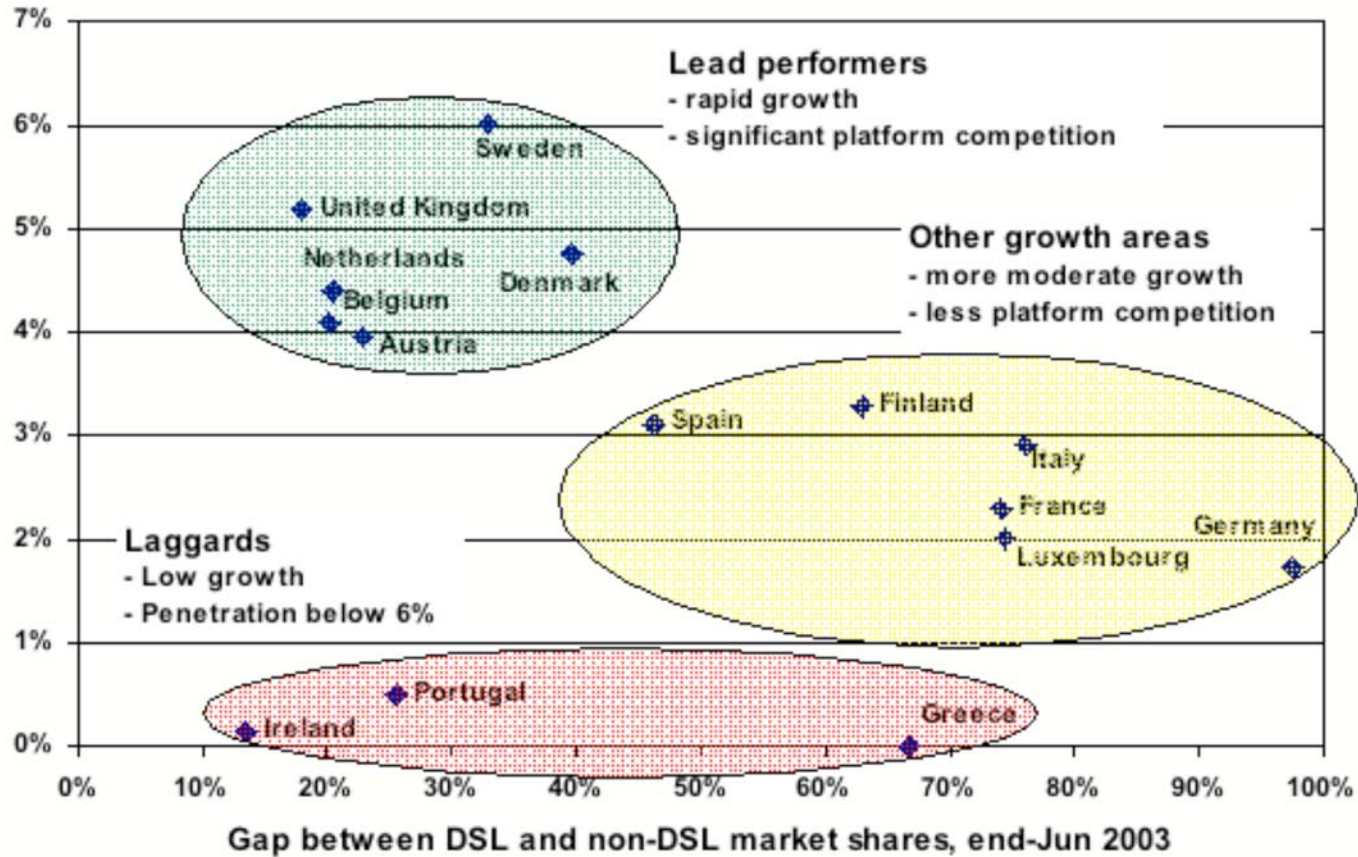
Uneven shares ← **Even shares** → **Uneven shares**

Access takeup

EU countries with high platform competition are growing fastest in 2003



Growth in broadband subs



Greater platform competition

Access-based entry may crowd out facilities-based investment

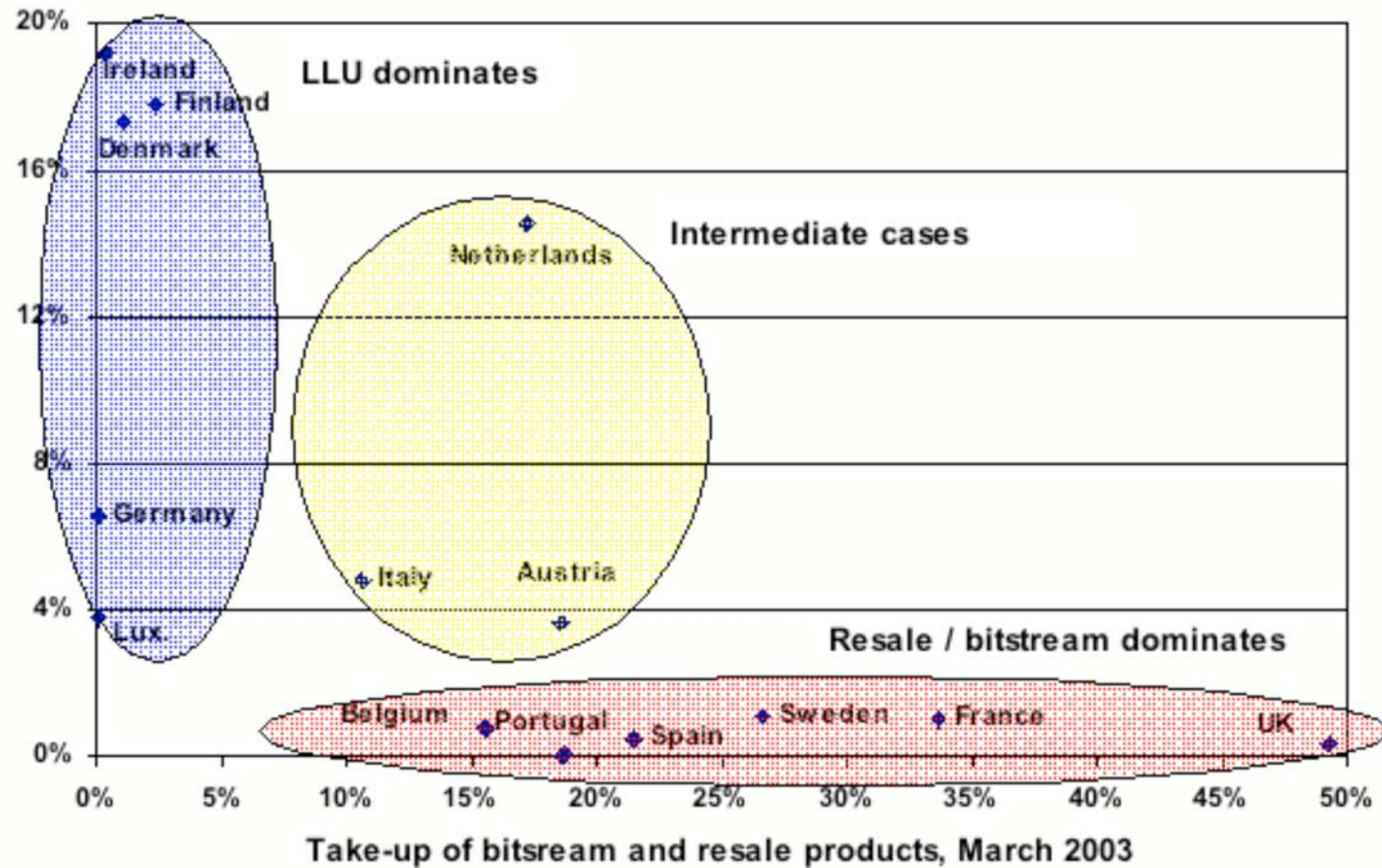


- ❑ Most entry in the EU based on regulated resale or bitstream access
- ❑ These forms of access-based entry attractive as they provide commercial flexibility
- ❑ Regulated access prices currently do not include costs of providing flexibility and so distort decisions
- ❑ Benefits of facilities-based competition not factored into regulated access prices by NRAs
- ❑ No evidence that users of regulated access switch subsequently to infrastructure-based competition

Regulated bitstream & resale appear to be crowding out LLU



More LLU & line sharing



More bitstream & resale

Appropriate investment incentives for platform competition



- ❑ Wind back access regulation where competition is effective
- ❑ Avoid unnecessary tiers of access obligations
 - ❑ LLU addresses concerns about control of local loops
 - ❑ Additional access obligations have risks for limited benefit
 - ❑ Need caution with terms and conditions for bitstream
- ❑ Access pricing must consider flexibility and risk
- ❑ Commit not to regulate new services and platforms
- ❑ Avoid uncertainty about subsidies and obligations

A specific issue: including option values in access prices



- ❑ Demand and technological uncertainty affecting optimal network configuration is not reflected in MEA-based LRIC
- ❑ Unpredictable current and potential demand for access services increases uncertainty for providers
- ❑ There are feasible approaches to including option values in cost-based access charges:
 - ❑ Theoretical models
 - ❑ Benchmarking flexibility costs with other sectors
 - ❑ Marketisation (long access commitments with resale)

The Commission's role



- ❑ Use Article 7 to police NRAs' attempts to extend regulation
- ❑ Monitor the proportionality of NRAs' remedies
- ❑ Issue guidance on how to interpret cost-based access pricing to include the costs of flexibility options
- ❑ When reviewing the Recommendation on Relevant Markets look at the benefits of parallel tiers of regulated access given current deficiencies in access pricing methodologies