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

50% penetration ➔ €50bn / annum consumer surplus
Benefits of facilities-based competition

<table>
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<th>Competing platforms</th>
<th>Unbundled loops</th>
<th>Bitstream access</th>
<th>Resale</th>
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<td><strong>Facilities-based competition</strong></td>
<td><strong>Access-based competition</strong></td>
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<td>Real choice for customers</td>
<td>Competition over only part of the value chain</td>
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<td>Downward pressure on costs</td>
<td>Little diversity or real choice</td>
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<td>Internal efficiency</td>
<td>Technological monoculture</td>
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<td>Selection of best techniques and technologies</td>
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<td>Spillover benefits from innovation</td>
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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

**Cable vs. DSL**
- New cable build
- New fibre build
- Broad coverage WiFi

**3G**
- New mobile
Platform competition key to broadband penetration

Mass-market penetration driven by
...platform competition... ...not regulated access

Uneven shares ↔ Even shares ↔ Uneven shares

Access takeup

End-2002 data
EU countries with high platform competition are growing fastest in 2003.

Jan-June 2003 data
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