Managing entry and competition in regulated industries

Disruptive Business Models and Regulation
telecommunications networks and services

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Personal views

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Agenda

- Market entry in telecommunication markets: “historical” perspective

- Standard access regulation conflicts with the overwhelming current need of investment in “very high connectivity networks”

- Towards a new regulatory framework conducive to investment in very high connectivity network

Market entry in telecommunication markets: “historical” perspective (1)

- **« long distance »**
  - o innovation (fiber in core networks) / duplication of long distance infrastructures became economically accessible
  - o tariff (inherited from the public monopoly) not aligned with the cost function (access vs. traffic / local vs. long distance / consumer vs. business)
    - o <u>regulation adjusted to this new paradigm</u> : local interconnection vs. regional interconnection / carrier pre selection…

- **mobile**
  - o market was opened via “symmetrical” licences
  - o regulation stepped in to rationalise access to fixed networks (backhaul) and settling the interconnection arrangements between fixed and mobile networks
    - o in a first phase to the benefit of the mobile industry
    - o then to the benefit of fixed customers

Market entry in telecommunication markets: “historical” perspective (2)

- **narrowband internet**
  - o developed independently of any regulation
  - o specific interconnection schemes and rates (capacity based charging)
  - o there again, regulation was adapted to the new market conditions created by the first Internet wave
    - o overall, those unable or unwilling to surf the next wave (BB) just disappeared
- **broadband internet**
  - o cable modernisation + copper modernisation (xDSL)
    - o BB access remedies: copper bitstream and unbundling
    - o regulators generally used pricing parameters in order to favour those willing to invest in central offices (unbundling) in order to benefit from passive access (lower price + capacity to differentiate)
  - o market concentration (no major entry)

☞ Regulation followed innovation

☞ Access regulation to existing local networks (copper pairs) rewarded investors vs. resellers

☞ With a few exceptions, more than 10 years after the telecom sector liberalisation, the “survivors” are those with local access networks

Standard access regulation conflicts with the overwhelming current need of investment in “very high connectivity networks”

- **Traditional access regulation no more fit for purpose when new local infrastructure is needed** (new cycle of investment vs sharing of existing infrastructure)

- **Current access framework supports competition on existing infrastructure but deter investment in new local infrastructure**

- **with fixed mobile convergence, current framework could result in duopolies**

  Where 2 fixed infrastructure owners are also mobile and compete on FM convergent offers

  Current framework does not secure fixed access for pure MNOs

Towards a new regulatory framework conducive to investment in very high connectivity network

☞ **Risk sharing symmetric access regulation to support investment in fibre networks**

- **When and where < 3 fixed infrastructure based operators effectively compete, all fixed infrastructures should be subject to sharing obligation**
  - Geographically imposed local area per local area
  - One single access level per infrastructure and per area
  - Symmetric to secure fair competition and investment incentives

- **Right to share infrastructure subject to obligation to share investment risk**
  - Safeguard incentive to invest in fibre infrastructure
  - Lower variable wholesale prices, fostering competition and segmentation in the retail market
  - Consistent with an efficient concentrated retail market structure
  - Risk sharing access should be exclusive of standard access

Thank you

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