

# Risk and regulation: maximising the benefits of open access

22 January 2010, Lisbon



# Competition: the benefits

- ECTA represents more than 100 of the leading pro-competitive operators (large and small) across Europe delivering consumer broadband and entertainment, business and mobile services
- Competitors responsible for **nearly 50% of total fixed investment** (Commission Impl Report). **First to invest in fibre-to-the-home (FTTH)** – typically open access
- Competitors responsible for nearly **100% of innovation** in telecoms sector – dial-up Internet, high speed broadband, triple play (IPTV, voice and broadband), business services, value added services
- Take-up of high speed broadband (as for basic broadband) crucially dependent on choice and innovation. **Pipes without services are worthless**

# The main risk factors of network investment

- Market uncertainty
  - Costs
  - Demand
  - Revenues
- Regulatory risks
  - Unclear regulatory policy
  - Likelihood of changes to regulation after the investment was made

# NGAN rollout - Costs

- **Incumbents can rely on the availability of major network elements** needed for NGA (locations of street cabinets, ducts, fibre) which they might use at their book values. Alternative operators still have to invest.
- **Incumbents can save (economically) investments by generating lump-sum revenues due to dismantling of MDFs and selling the respective locations.**
- **Incumbents can make better use of economies of scale and scope due to their larger subscriber base (80-90% of local loop, around 50% of retail broadband customers)** compared to that of the leading broadband competitor (10-15% retail market share), which they can migrate to NGA.
- **Alternative operators usually face a higher cost of capital than incumbents due to their size and risk position.**

**Investments in NGA are more risky for alternative operators than for incumbents**

# NGAN rollout is expensive with limited duplicability

## Viability of NGA roll-out for incumbents across countries and technologies

Network Type	Country					
	DE	FR	SE	PT	ES	IT
VDSL	71.5%	n.r.	18.3%	39.0%	67.4%	100.0%
PON	25.1%	25.2%	18.3%	19.2%	12.2%	17.6%
P2P	13.7%	18.6%	18.3%	19.2%	12.2%	12.6%

## Replicability of NGA roll-out for a second mover, 80 % access to existing ducts at current cost-based prices

Network Type	Country					
	DE	FR	SE	PT	ES	IT
VDSL	18.5%	n.r.	n.v.	39.0%	n.r.	17.6%
PON	0.3%	6.8%	n.v.	n.v.	n.v.	1.6%
P2P	0.0%	6.8%	n.v.	n.v.	n.v.	0.2%

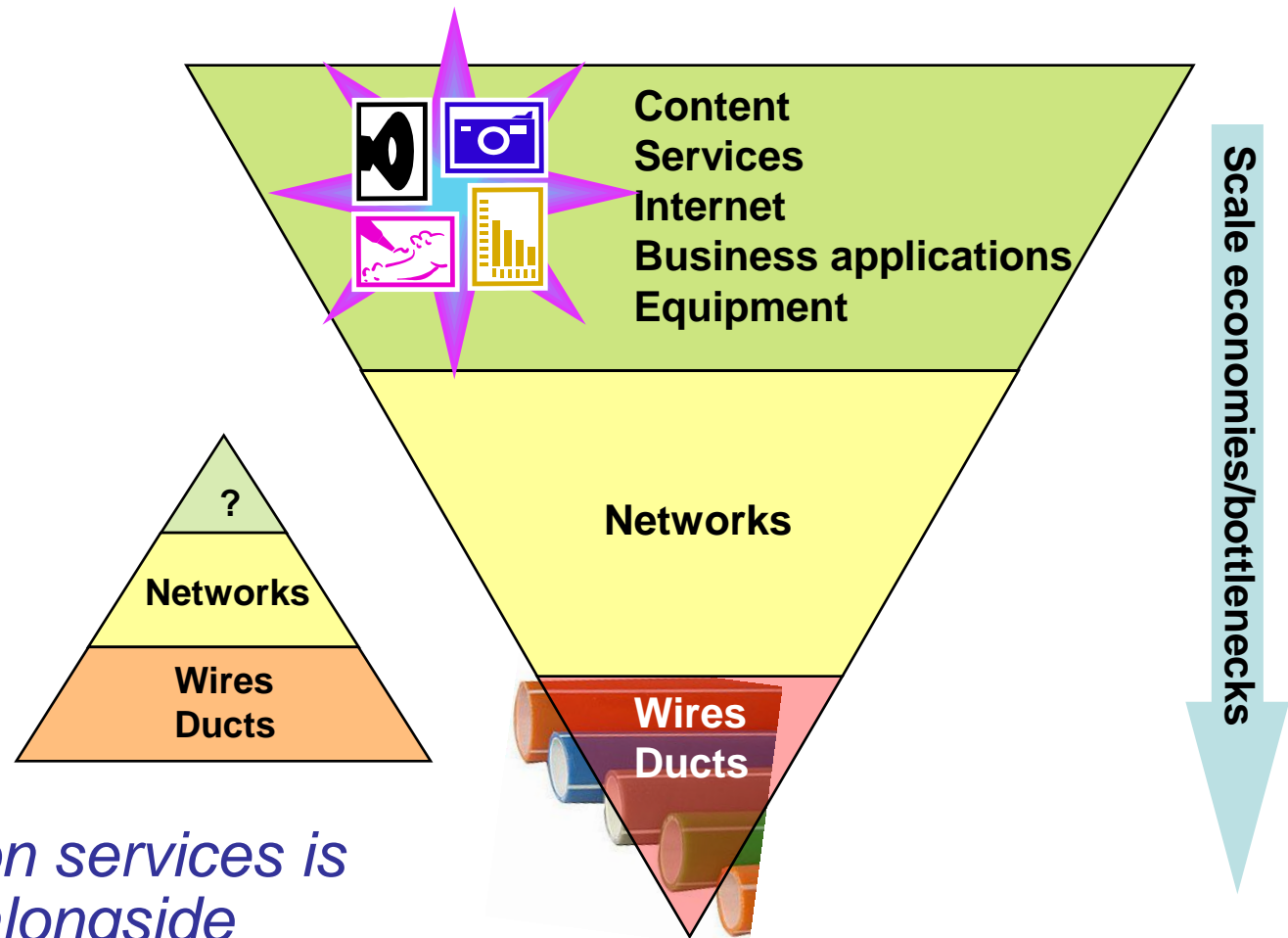
Source: WIK-Consult

## NGAN rollout - Demand

- Incumbents can migrate their large existing customer base – on average 46% of the retail market
- Open access
  - Innovative services by competitive operators boost demand
  - Competition drives down retail prices – affordability increases take up
  - Clear wholesale demand – helps filling the pipes

**Open access boosts demand and reduces investment risks**

# Pipes without innovation & choice in services are worthless

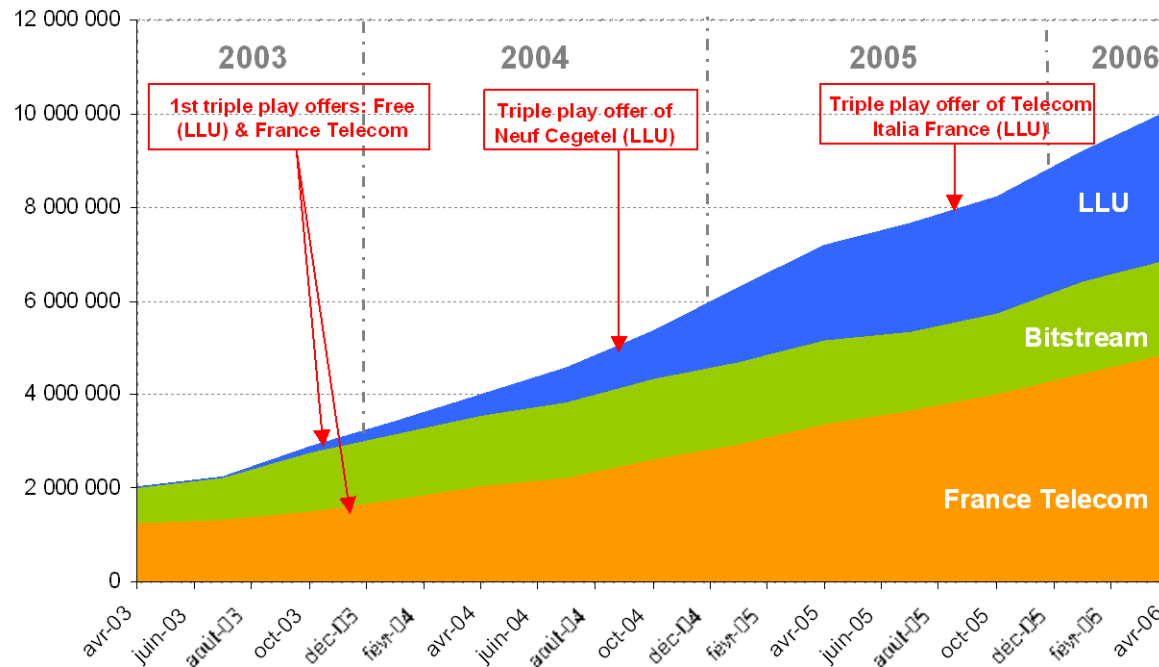


*A focus on services is needed alongside infrastructure*

# Open networks drive innovation, take-up

## France

### Retail DSL market



- All major leading broadband countries including Germany, France, UK and Nordics have benefited from 'unbundling' of the copper network
- Competition brought lower prices and new services (€30 triple play in France)



# Uncompetitive markets: vDSL in Belgium

	Belgacom Internet Budget (6)	Belgacom Internet Light(1)	Belgacom Internet Go(1)	Belgacom Internet Plus(1)
Speed(2)				
downstream	1 Mbps	4 Mbps	12 Mbps	18 Mbps
upstream	128 Kbps	256 Kbps	1 Mbps	1,2 Mbps
Monthly volume included(3)	1 GB	4 GB	25 GB	60 GB
# of mailboxes x # aliases per mailbox	1 x 5	1 x 5	4 x 5	8 x 5
IP address	Dynamic (4)			
Internet access	24/24 hr (4)			
Personal Web space	50 MB Up to 500 MB of traffic/month			
Maximum # of PCs	1	1	1	4

## The Telephony + Internet + TV Packs:

	Price of the separate subscriptions*	Price of the Packs	Profit
Internet Light	€68,45/month	€49,95/month	€18,50/month
Internet Go	€78,65/month	€60,15/month	€18,50/month
Internet Plus	€93,95/month	€70,15/month	€23,80/month

**Limited Edition.** Offer limited to the first 25,000 customers, for every new 12-month-subscription to one of the Telephony + Internet + TV Packs.

\* Monthly price (including VAT) : Classic telephone line + Internet + Belgacom TV + decoder.

# Competitive markets: ADSL2+ in France

## offres internet

### internet + TV + téléphone

sans abonnement téléphonique France Télécom

**exclu web**  
**29,90€**  
TTC/mois (1)  
pendant 3 mois, puis 39,90€/mois  
en souscrivant en ligne

**-10€**  
pendant  
3 mois

**90€**  
remboursés  
offre de bienvenue



#### internet jusqu'à 18 méga

contrôle parental et antispam inclus



#### jusqu'à 75 chaînes incluses dont la TNT (2)

et en exclusivité Orange la TV à la demande avec des programmes (3) à voir ou revoir



#### téléphone par internet en illimité

vers les fixes métropolitains et gardez votre n° de téléphone \* sans payer l'abonnement téléphonique France Télécom (4)

[en savoir plus](#)

[s'abonner](#)

Engagement 12 mois, [conditions sur la portabilité](#).

les promotions sont valables du 18/08/09 au 19/08/09 avec la Livebox (+3€/mois), dépôt de garantie sur le décodeur TV 49€

# NGAN rollout – Revenues

- Open access grows the market – slice of a larger pie
- Wholesaling is a profitable business and reduces investment risks

**Ad Scheepbouwer (CEO of KPN)** *“In hindsight, KPN made a mistake back in 1996. We were not too enthusiastic to be forced to allow competitors on our old wireline network. That turned out not to be very wise. If you allow all your competitors on your network, all services will run on your network, and that results in the lowest cost possible per service. Which in turn attracts more customers for those services, so your network grows much faster. **An open network is not charity from us, in the long run it simply works best for everybody.**”*

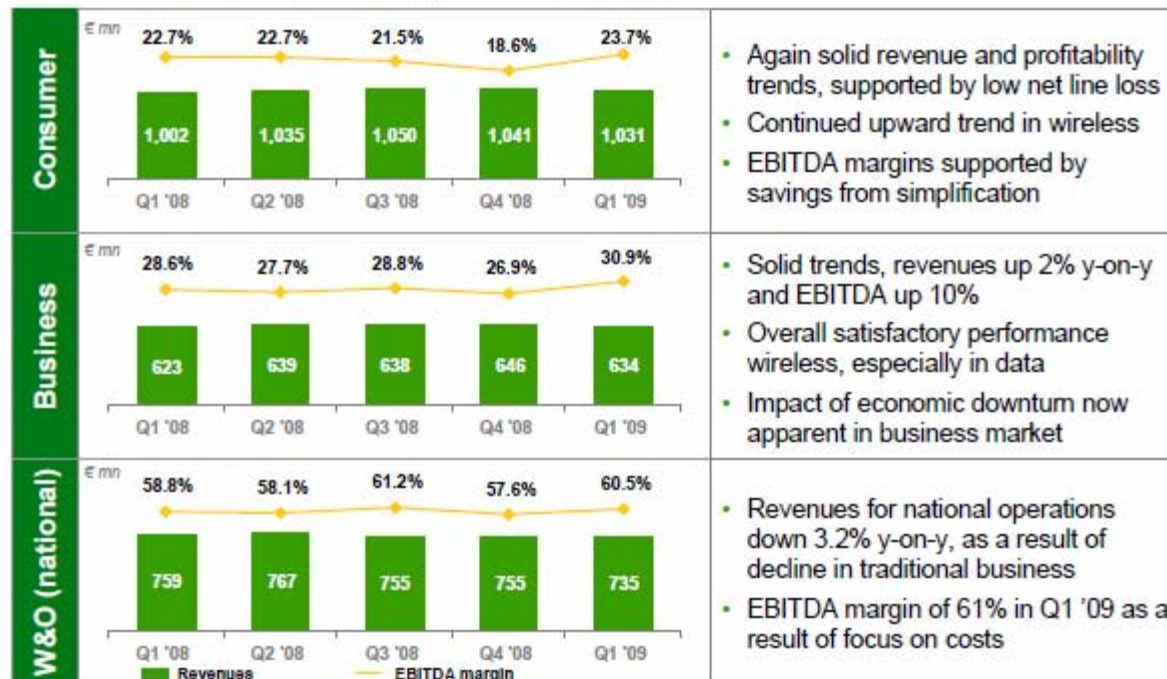
**Open access generates wholesale revenues reducing investment risks**

# Access is profitable business



## Financial review Dutch Telco business by segment

Solid revenue and profitability trends in Q1 '09

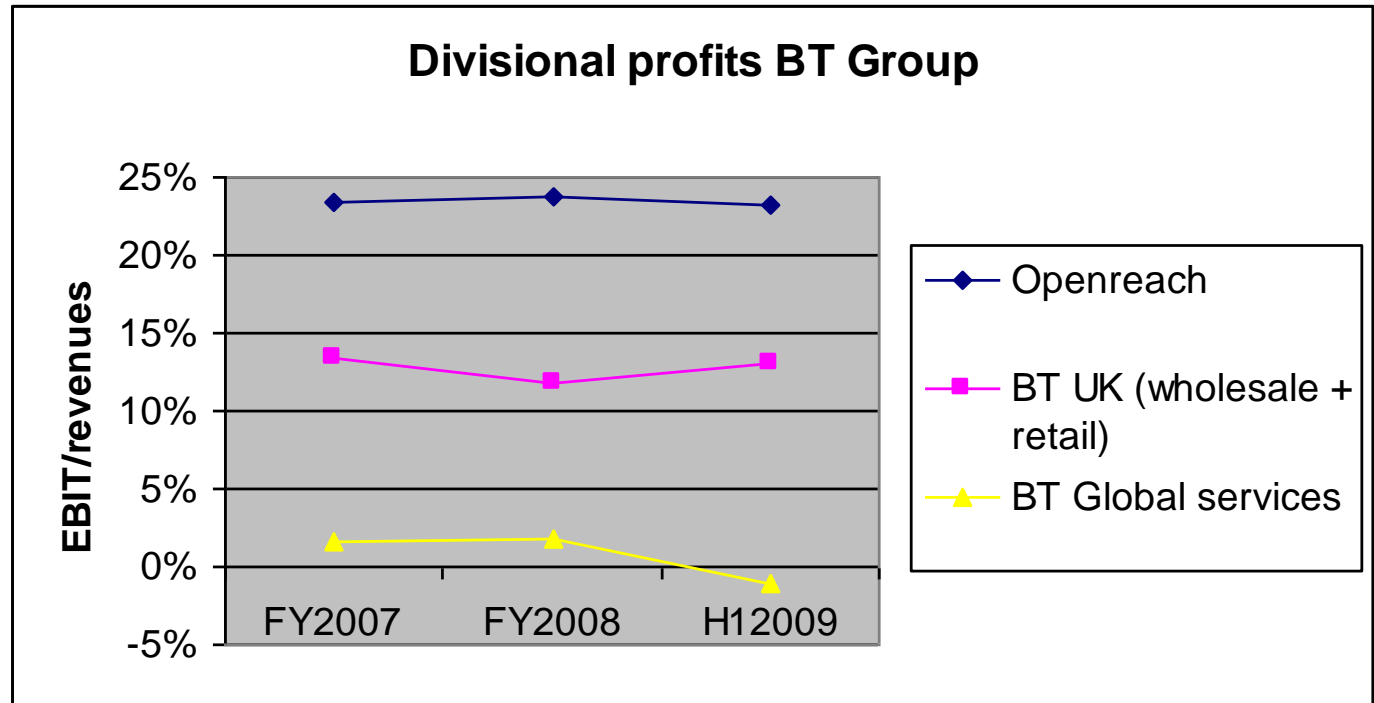


- Again solid revenue and profitability trends, supported by low net line loss
- Continued upward trend in wireless
- EBITDA margins supported by savings from simplification

- Solid trends, revenues up 2% y-on-y and EBITDA up 10%
- Overall satisfactory performance wireless, especially in data
- Impact of economic downturn now apparent in business market

- Revenues for national operations down 3.2% y-on-y, as a result of decline in traditional business
- EBITDA margin of 61% in Q1 '09 as a result of focus on costs

# Access lowers investment risks

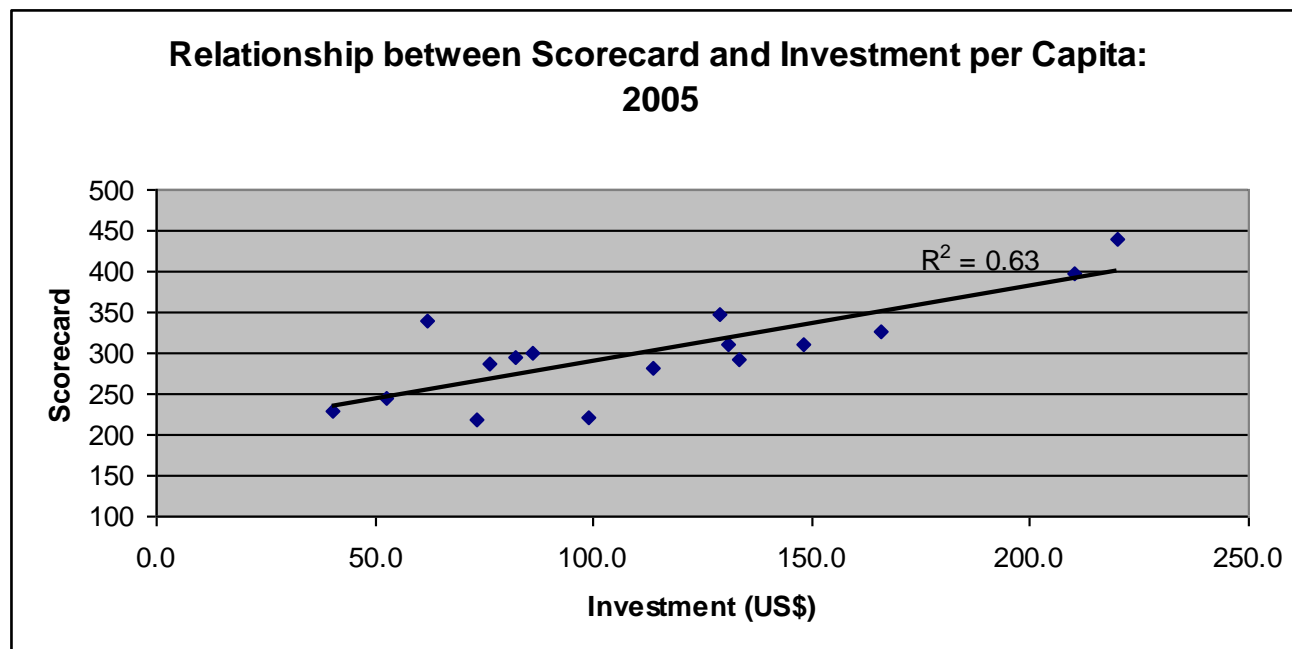


- Wholesaling provides opportunity to grow the market, fill the pipes and reduce investment risks
- Openreach most consistently performing and profitable BT division

# NGAN rollout - Regulatory risks

- Clear rules from NRAs before NGAN deployment – highest levels of investment consistently in well regulated markets
  - Access regulation to address economic bottlenecks (fibre unbundling & bitstream)
  - Cost based access access pricing + risk premium ensuring a fair return for everyone

# Clear regulation & open networks foster investment



- Countries which have been more proactive in opening markets (ECTA regulatory scorecard) have consistently achieved higher overall telecoms investment
- European Commission data shows competitors made 46% of total fixed investments
- SPC Network Oct 2009 investment note finds that every 1% improvement in market openness contributes 0.6% increase in telecoms investment – concludes investors are looking for stable regime in which they will not be subject to strategic behaviour

# NGAN rollout – Regulatory risks

- Regulatory holiday is highest risk
  - Bad market outcome – consumer complaints
  - Less investment both from incumbent & competitors
  - Court decision annulling regulatory holiday rules (eg ECJ judgment on German reg. holiday)
  - Later regulation is inevitable & entirely uncertain



# Other methods to reduce investment risks

- Volume & term discounts
  - Incumbent has largest customer base – always benefits more
  - Locks in an oligopoly – incompatible with competition
  - Possibility of gaming by incumbent
  - Refused by NRAs because of discriminatory effects

# Other methods to reduce investment risks

- Co-investment
  - Practicality unclear (market power & access to capital)
  - Far riskier for new entrants
  - Creates very high entry barriers & locks in oligopolies
  - Does not reduce risks but pushes it around (economics of investment do not change)

**Thank you for your attention!**

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