

The ladder of investment in Spain - Discussion

NEREC Telecom Lunch

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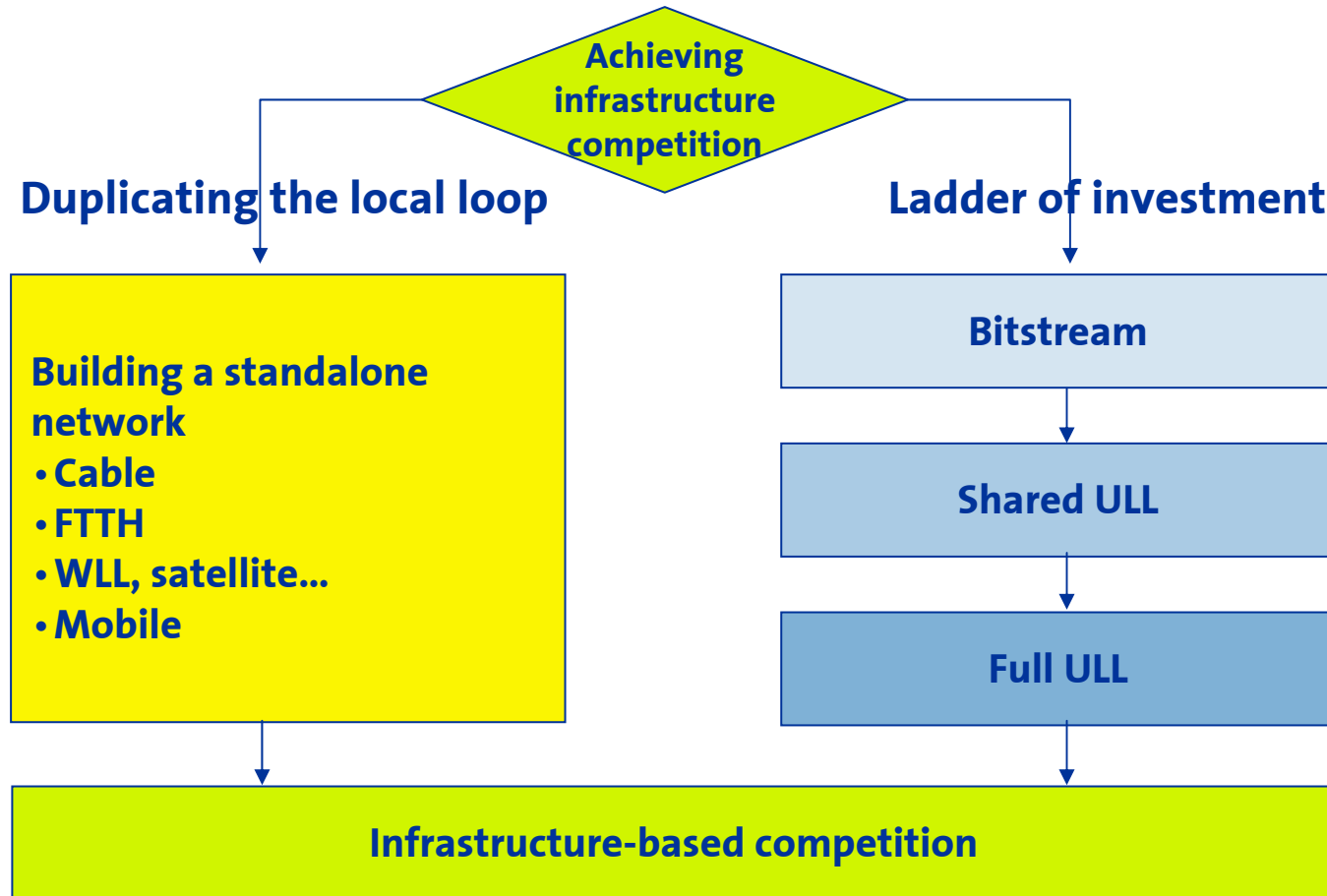
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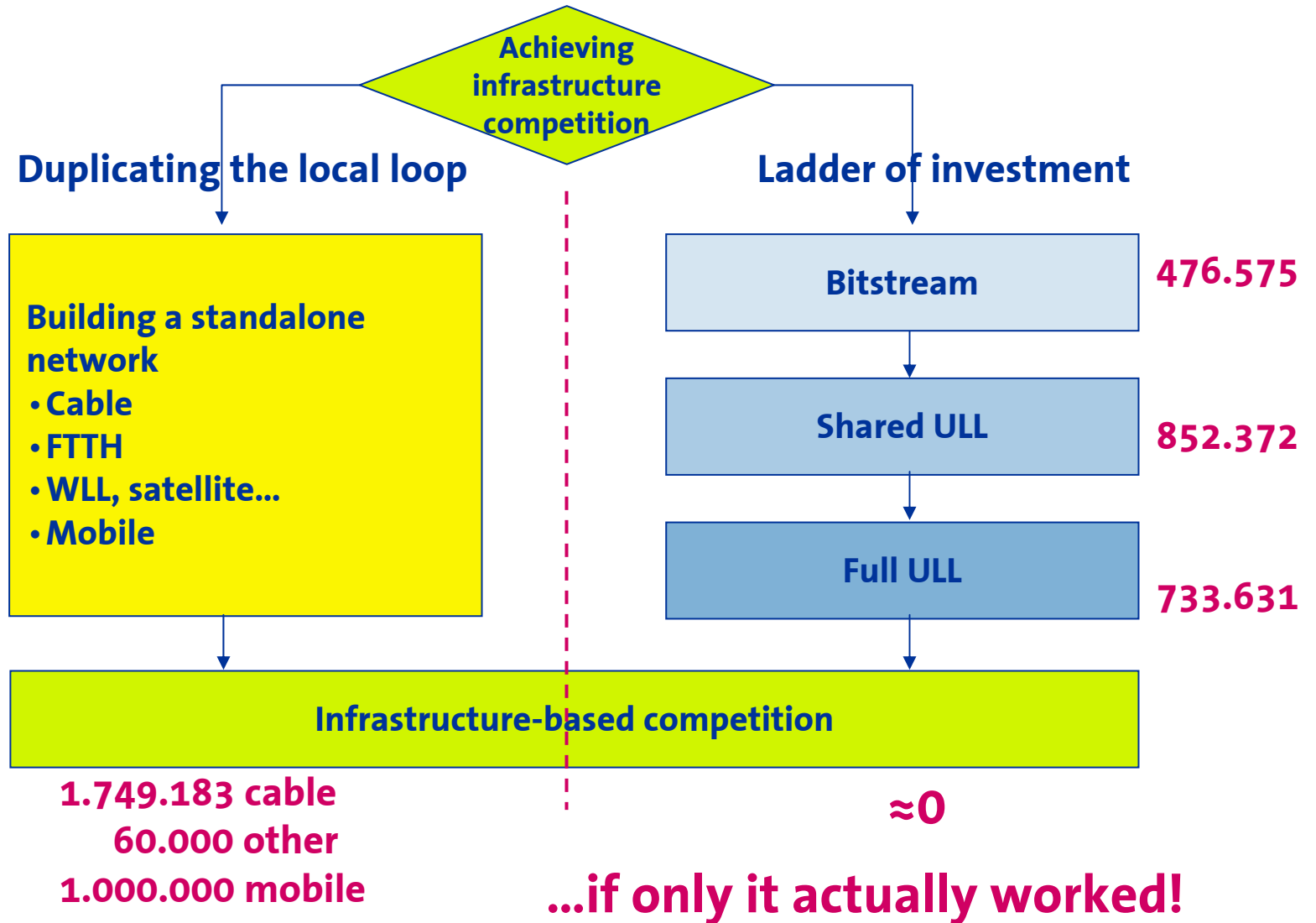
Evidence shows that infrastructure competition actually yields better results

- Platform competition has been found to drive broadband penetration
 - Korea was world leader by penetration before mandating unbundling of KT network
 - USA: Aron & Burnstein (2003)
 - Europe: Distaso et al. (2006), Höffler (2007)
- The policy goal of promoting infrastructure-based competition is supported by evidence

The ladder of investment: a brilliant idea...



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Critics seem to be supported by evidence

- Quantitative research shows that lower regulated access prices inhibit investment by infrastructure-based new entrants
 - Europe: Waverman et al. (2007), Röller et al (2007)
 - US: Crandall & Singer (2004), Wallsten (2006)
- After the bursting of the telecoms bubble in the US, Crandall (2002) found when studying the US CLEC companies:
 - That CLECs which had invested in own access infrastructure survived in general, whilst CLECs that used rented loops failed
 - That more stringent regulation could not have saved the failed CLECs

How do we measure the success of the ladder of investment?

Against total entry...?

Parameter	Spain	France
Total entrant share	44% (good?)	53% (better)

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...or against the objective of the Lol: fostering infrastructure-based competition?

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Reasons: do prices in France were consistent with the Lol?

- The Lol is a transitory model (Cave, 2005)
- Prices of the initial rungs must go **UP** over time in order to encourage entrants' investment in their own local loops

A first approach to the final questions

- Do we need bitstream prices that consider regional differences?
 - Definitely, yes:
 - Prices must be cost-oriented
 - Costs differ greatly by geographic areas
 - Then, prices must vary to reflect different geographic conditions
- Vertical differentiation? Does ULL offer enough product differentiation?
 - Currently unbundlers offer speeds up to 20 Mbps vs. Telefónica's 6 Mbps
 - By the way, wasn't the objective of the Lol to encourage entrants to deploy their own loops?
- NGNs: do entrants have enough customers to climb the ladder?
 - It looks that they do:
 - Cable has 1.750.000 customers, operating profits and are launching NGNs
 - Unbundlers have 2.000.000 customers and deep pocket shareholders (Orange, Vodafone)

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