

Geographic segmentation Theory and practice

February 2008

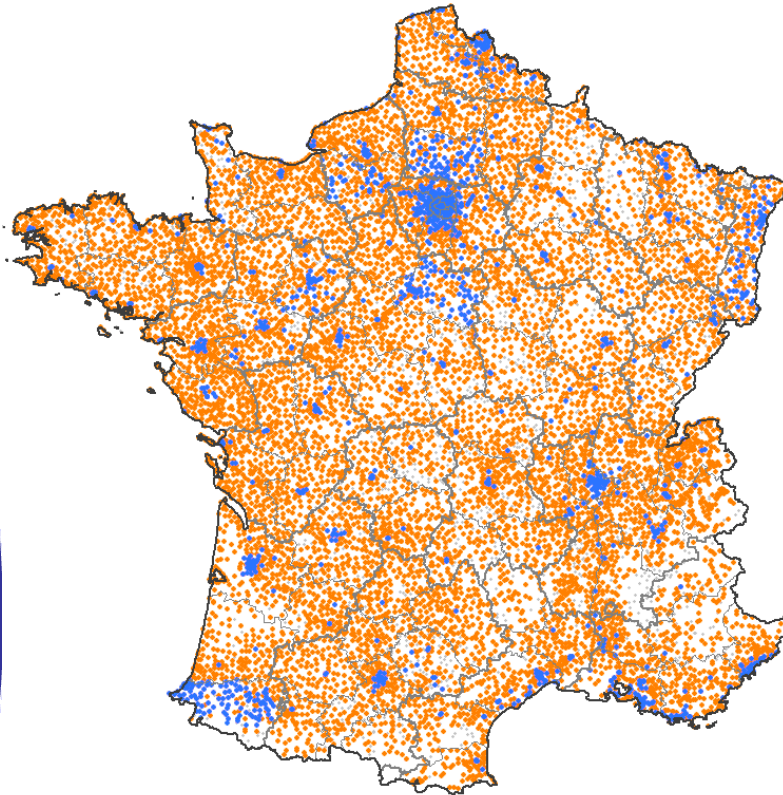


Theoretically....



Competitive conditions do differ

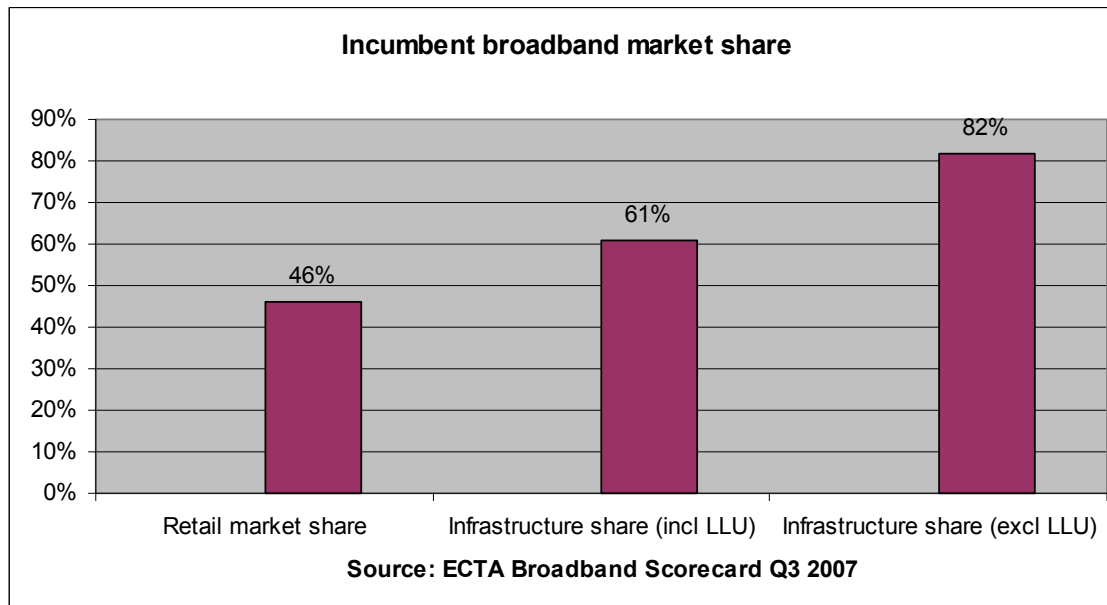
Couverture en DSL au 1^{er} octobre 2006



- NRA non équipé DSL
- NRA équipé DSL par FT
- ... et par un opérateur dégroupéur

- LLU has played tangible role in stimulating broadband competition in those countries where it has been implemented effectively
 - Prices, speeds and offers often more attractive in more competitive areas
 - BUT is there justification for separate markets?
- Can it actually be implemented?

Can broadband be segmented?



- Economics of duplication increasingly unviable towards end-user
- Broadband access dominated across Europe by incumbents (average 83% market share). Typically no more than one or two parallel lines.
- Segmentation may only be considered for downstream markets such as WBA and only where there is sufficient actual (not predicted/prospective) constraint through upstream competition (typically unbundling)

But not for business broadband

- Business users demand consistent service quality across multiple sites (and countries)
 - Retail market is nationwide or EU-wide
- Business service suppliers main selling point is ICT 'value add', not infrastructure
 - Wholesale demand is nationwide or EU wide
 - Scale economies may not justify self-supply through LLU
- Incentives for voluntary wholesale supply may be weaker for business services
 - LLUOs mainly targeting consumers. Incumbent may be able to boost own share/scale through voluntary WBA
 - BUT incumbent may win competitive advantage if withholds WBA needed for a nationwide business contract

Wholesale supply remains important

- Analysis which puts significant weight on self-supply and focuses on retail supply conditions may miss untapped potential
- Can an innovative player with an idea that would expand/develop the market enter or not?
- Competitive markets characterised by commercial wholesale activity eg MVNO, international capacity – no refusal to supply
- Wholesale supply and demand must be assessed – cf Commission UK WBA letter

Segmentation and separation

- Functional separation aims to address enduring bottlenecks
- Focus today on access (LLU/NGA access) and backhaul, but segmentation could reveal other bottlenecks
- FS as a mechanism to secure rural competition? Include rural bitstream and leased bandwidth to smaller towns
- FS as Framework to bargain for rural investment – commitments made in NZ, discussed in Ireland

In practice....



Can it be implemented?

- Is there sufficient data to distinguish geographic competitive conditions including pricing and market shares and trends?
- Is there disaggregated data to differentiate costs in different regions?
- Risk of getting it wrong: danger of encouraging inefficient investment or diminishing competitive pressure
- Risk of regulatory-based upstream competition being undermined eg NGA
- Increased risk of cross-subsidy between regions – two way margin squeeze
- Weakened competitive constraints in rural areas

An alternative: no eviction pricing

- Segmentation may not be practicable and carries significant risks
- Alternative is complete investment ladder with sufficient spacing – no eviction pricing
- Offers competitors financial incentives to invest (better returns) without requiring them to invest where not viable
- Requires careful cost-based pricing using costs of an efficient competitor (without incumbent scale) and different risk profiles
- Possible for as long as SMP conditions persist on a nationwide basis