



The Communications Framework Review: how do we ensure it is evidence based?

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Outline

■ Evidence

- ICT and productivity
- Broadband
- Investment
- Ladder of investment

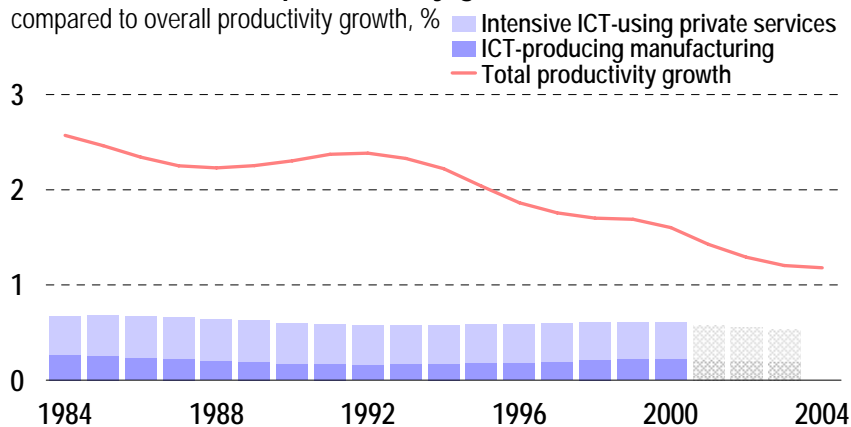
■ Ways we can change regulation

- Taking a more granular look at the evidence
- Refreshing our thinking
- Shifting the burden of proof through institutional change



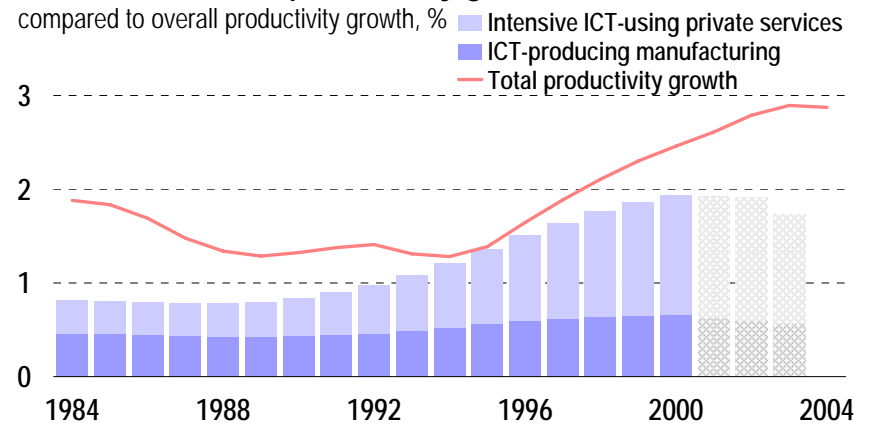
Evidence that nothing has happened in terms of ICT in Europe

ICT contribution to productivity growth, EU-15



Source: DG for Economic and Financial Affairs (Feb 2005), Indepen

ICT contribution to productivity growth, US

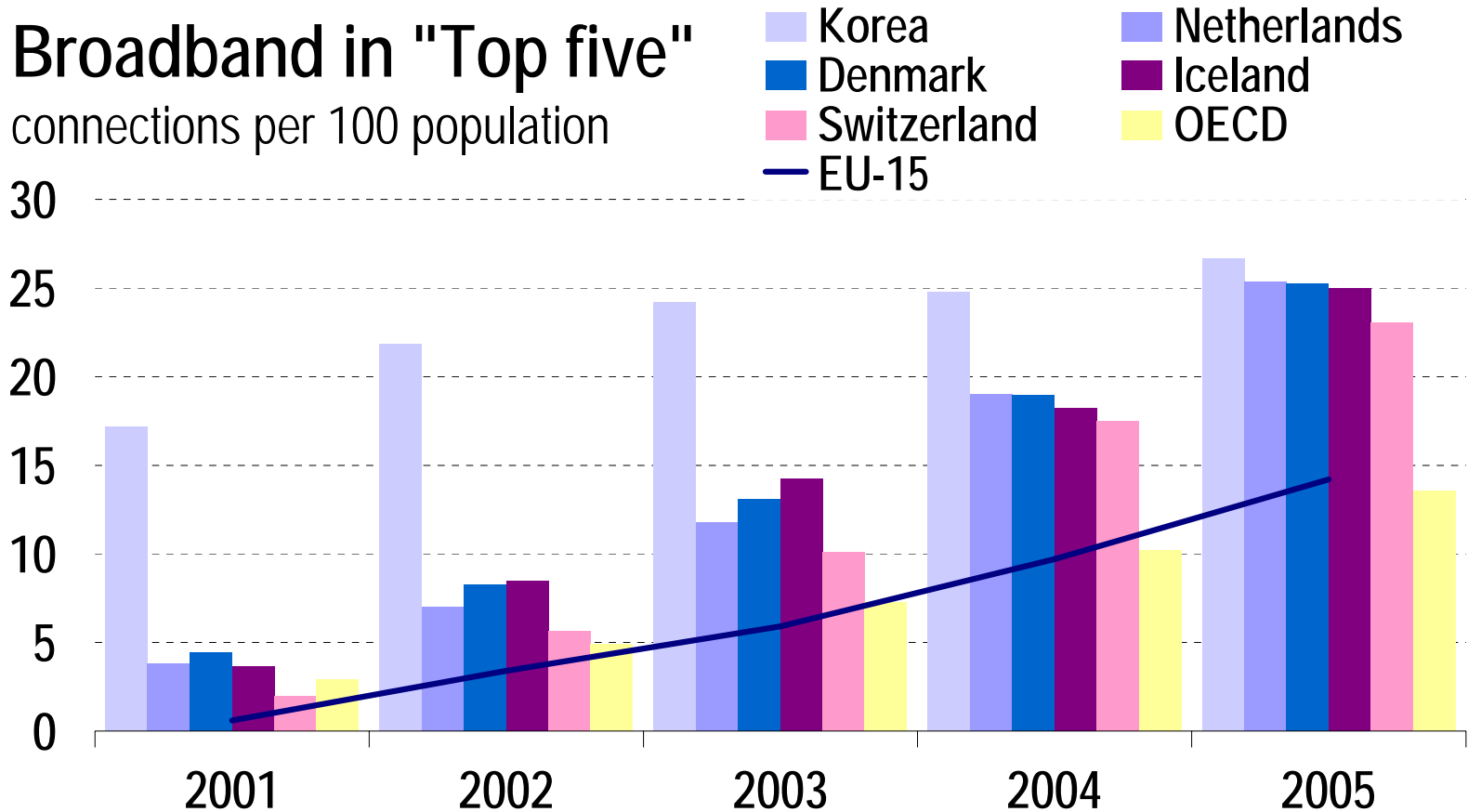


Source: DG for Economic and Financial Affairs (Feb 2005), Indepen

Broadband penetration – “top five” vs OECD and EU-15

Broadband in "Top five"

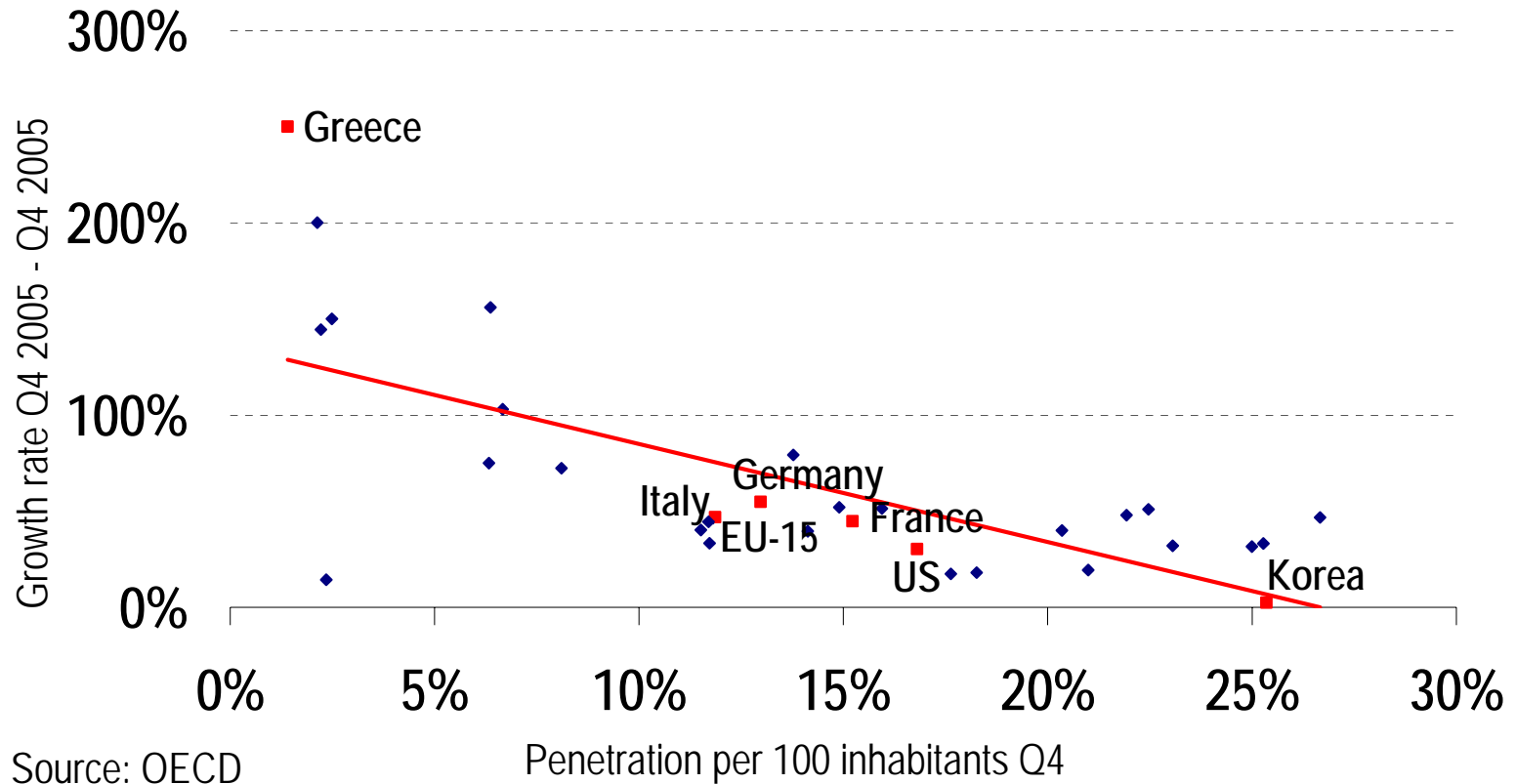
connections per 100 population



Source: OECD (December 2005)

A fresh look – what is good?

OECD broadband growth and penetration



➤ Policies that are correlated with high growth will be correlated with low penetration



Mixed evidence on investment climate

- European Commission point to investment recovery

“After dipping significantly in 1999-2001, **investment levels are recovering**, with capital expenditure for the [communications] sector as a whole conservatively estimated to exceed EUR45bn in the EU in 2005, an increase of approximately 6% compare to 2004 and the third annual increase running.”

11th EU implementation report. February 2006.

- However, investor sentiment is negative

“The dominance of free cash flow yield (FCFY) valuation measures in Europe is testament to the fear and suspicion with which the market regards investment in capex. The **focus on FCFY has sent** company management teams **a clear message – spend as little as possible on network...**”

HSBC Global Research, Telecoms and Media. April 2006. “Net Neutrality”

"We...see **little incentive from a regulatory perspective** for incumbents in Europe **to pursue FTTP** [Fibre to the Premises]."

Credit Suisse First Boston. July 2005.



Canada: “ladder of investment” has not worked

- “There is **no evidence in Canada that the CRTC’s “stepping-stone” strategy has provided an effective transition to greater reliance by entrants on their own facilities.** There is, on the other hand, reason to believe these policies have distorted the behaviour and incentives of new entrants in Canadian telecommunications market.”
- “Therefore, while the **CRTC has identified facilities-based competition as an objective** of its regulatory framework, it has adopted **mandated wholesale access policies** that, in the Panel’s view, **seriously undermine, if not foreclose, the achievement of that objective.**”

Telecommunications Policy Review Panel Final Report, March 2006, Page 3-35



Taking a more granular look at the evidence

- Consider jointly different dimensions of competition and regulation
 - Inter-platform competition and intra-platform competition have different impacts
 - Regulation that promotes existing services may impede next generation investment (DSL versus VDSL and fibre)

- Look outside Europe to
 - Benchmark outcomes like investment
 - Widen panel data set for empirical analysis as input to framework review

- Think hard about measures of what is good – greater focus on quantities?



Refreshing our thinking

- Widen conception of “competition” in telecoms
 - In high-tech sector “dominance” often disciplined by threat of entry e.g. Intel
 - “...consumers are generally better off and always no worse off if a major innovation resulting in a monopoly for the innovating firm occurs.”
Darby and Zucker. March 2006. “Innovation, competition and welfare-enhancing monopoly.” NBER Working Paper 12094.

- Acknowledge implications of applications-based competition in IP world
 - Remove all retail market regulation - cannot hope to keep up
 - Will very concept of “market” serve us well in future?

- Explicitly consider uncertainty and possible asymmetric losses
 - Regulation persists whereas markets self corrects
 - Better to be approximately right than precisely wrong

- Re-assess incentives for vertically integrated incumbents to discriminate
 - Proliferation of downstream services
 - Decoupling of infrastructure from service provision

- Acknowledge importance of pre-commitment to achieving good outcomes



US forbearance aimed at promoting next generation investment

- FCC forbearance for FTTH (August 2003) and FTTC (October 2004)
- “This [DSL deregulation] decision allows broadband platforms to invest in their networks without having to provide their rivals with access at unfair discounts.”

Kevin Martin, Chairman of FCC. 3 April 2006. Financial Times.

- ➔ Look at sub-markets in Europe - as competitive as US market?



Canada: imperfect competition may be superior to regulation

- “...today’s telecommunications markets are very competitive, dynamic and complex. **This undermines the effectiveness of economic regulation** in many areas and introduces new costs.
- In the new environment, these costs include not only the traditional costs of the regulatory process and compliance, but also the negative **impact of regulation** on the development of efficient markets, the **disruptive implications of acting on uncertain information**, the **potential for unintended consequences**, the **distortion of market outcomes** and other similar elements.
- Consequently, **even where market forces operate imperfectly, one can no longer assume that regulation will automatically produce a better result.**
- In fact, in some circumstances, **regulation can delay the introduction of advanced new services**. It can also mandate prices higher than those that would occur in an unregulated market.”

Shifting the burden of proof through institutional change

