

Global Forum 2001
Expanding the Global e-Society
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Newcastle upon Tyne, UK

Panel 2. Industry Regulation and Competition Issues in the e-Economy

I. Intro Glad to be here : 3 reasons

1. Newcastle : beautiful town, thanks to sylviane (acknowledgements)
2. Recent Events, telecoms sector
 - Bad news
 - Burst bubble : \$6.3 trillion to 3.8 trillion in 18 months, 3x Asian currency crisis
 - Bankruptcies : Exodus, psinet, etc. leaving europe.
 - Debt burden : FT, DT, Verizon, (prix UMTS) \$50-60 billion each
 - Good News (oecd study)
 - Business demand still stron : investment in sector = 5x rest of economy
 - Steady growth of e-commerce (proxy = secure servers)
 - Relativiser decline in investment : still strong, \$30 billion per Q (=Wcom or FT)
3. Recent events, 9/11 events
 - air travel to newcastle
 - security to forefront of telecoms/internet policy for future

II. topic : Designing pro-competitive regulations : comparison between Europe/North America

1. why regulate ?

End users

- Consumers : lower price, increase quality. ART rapport d'activite, voice down 30%
- Corporate users : SNCM : bandwidth up by 100x, price divided by 1/2

Economic actors

- Spur investment : despite incumbent speeches to contrary, ULL spurs investment
 - Investment in backbone
 - Investment in local access (tiresome resale of competitors offering)
 - Get customers, market share, revenue streams, invest to improve margins
- Improve productivity, competitiveness of economy/sector

2. US model

- FCC since 1930's : well centered ; Judge Green ; Telecoms law
- 1984 : Decision to split up monopoly and market, LD, local access
- 1996 : Telecoms Act : 271 criteria for RBOC LD market entry
- Success : LD investment : we built the internet (backbone)
- Failure : Local competition : RBOC vs RBOC

3. European model

- EU Directives throughout 1990's, National Law, weak/new regulators
 - ONP Directive 1990 ;
 - Interconnection Directive
 - Leased line directive
 - ULL Regulation
- Upshot : : Independent regulators, Local access ; retain integrated players (ld, local)
- Success : LD investment. Tier 1 european players bypass us backbones and lease fiber
- Failure : local access : PTT's refuse, NRA's can't or won't enforce obligations

III Broadband local access Is key to e-Economy

1. No e-Economy without broadband access (data, ip services, killer apps, etc.)
2. U.S. and Europe in similar, not identical, positions
3. key differentiator is consumer (ULL/ADSL) vs. business users (LL)

1. Consumers

US

DSL

ADSL/ULL : failure

92% DSL lines by RBOCs (total is 2 million lines, built mainly over last 2 years)

Data CLECs : Covad, Rythms, Northpoint, are bankrupt

Reason : poor regulation, then burst bubble

Cable

Driver for competition

4 million lines, 95% penetration

Europe

ADSL/ULL : failure

100% DSL lines by PTT

4 lines ULL in France (250K lines total = USA in 1999)

115 lines ULL in UK

Germany better, +/- 1 million lines, some ULL

Cable

Cable penetration mixed

Germany 80-90%

UK 60%

France 40%

Driver for competition is ULL : PTT's deploying since ULL

2. Corporate : LL US ahead of europe

US vs EU

1. LL pricing in France: 2x EU recommendations ; 3x US level
Competitive advantage for US firms
Increase productivity, employment, wages
2. Provisioning : very mixed (France very good, 28 days, Germany 9 mos)
3. PTT's in local and long haul market : discrimination, price squeeze
ditto by Verizon in NY (see NYPSC decision imposing fines)

IV Conclusion/ What next : similar, not identical, situations

1. In europe, PTT's moving aggressively into each other's territory : FT in Spain, TI, DT, BT in France :
2. Independence of regulators : in US, two levels (state federal), need european level to face off national champions
3. Business model of future : Integrated players (FT/Orange/Global1/Equant ; Verizon, Qwest, vs best in class niche players, Vodafone, WCOM.

Notes for Q's and A's

US vs Europe on internet policy

Issue	Europe	US
Content	G protects citizens	Courts protect
Liability		
Illegal content	Limits on Free Speech	No limits on free speech
Privacy	State is econ actor Public service	
Encryption	Regulate first	Innovate, then remedy ills

Backbone

37% internet traffic on WCOM backbone
Tier 1 players bypass US backbones via dark fiber
LDC's : PTT's dominate traffic, not US backbone providers

Mobile regulation : mixed results

EU : success : GSM single standard
Failure : UMTS standard (not ready), calendar, process (auctions vs beauty contests)
FVM
Roaming

US : failure : standards (TDMA, CDMA, GSM, Nextel)
Success : interco, resale

Japan : success : service-provider based business model : I-mode