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Introduction

The Effectiveness of Electronic Communications Sector Regulation in Europe

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The Design of Existing Regulation is Put to Test

- In countries within and outside the EU one can observe
 - a varying development of competition
 - a differing penetration of e.g. broadband
 - the necessity of high investments for the deployment of fiber and next generation networks

- Regulatory authorities pursue different regulatory approaches in order to cope with such challenges, e.g.:
 - USA: Removal of wholesale regulation
 - Japan: Access regulation also on FTTX networks
 - Germany: Introduction of regulatory holidays for new markets
 - UK: Functional separation of BT's access and service divisions

- Within the Review of the 2002 European Framework several aspects are under discussion:
 - The allocation of regulatory competencies between National and European institutions
 - Simplifying the processes of market definition and analysis
 - The choice and number of markets being part of the recommendation
 - The benefits of separating incumbents' access and service divisions



Benefits and Disadvantages of Telecommunications Regulation are Controversially Discussed

- Unbundling and wholesale regulation have been subject to a broad range of literature, however, their benefits remain controversial
- Main findings of recent scholarly research:
 - Several authors claim that wholesale regulation decreases new entrants' willingness to invest
 - Empirical research puts into question, whether intra-platform competition is appropriate for stimulating broadband uptake
 - The question is raised, whether welfare gains from increased infrastructure competition might compensate for high investments in redundant infrastructure
 - The ladder of investment suggests that NRAs might be able to provide incentives for service-based competitors to invest in own infrastructure over time
 - Differences between leading broadband economies and latecomers including the role of government, consumer demands as well as inter- and intra-platform competition are highlighted

Sources: Crandall et al. (2004), Aron; Burnstein (2003), Distaso et al (2005), Wallsten (2006), Hoeffler (2005), Picot/ Wernick (2006), Cave (2006).





Research on Investment and Regulation Reveals the Area of Conflict

- London Economics and ECTA highlight the connection between strong hand regulation and overall investment in European telco markets
- ADL and McKinsey emphasise the positive consequences of removing wholesale obligations on overall market investment

- A recent study focusing on regulation and investment decisions in the UK and German broadband market, which builds on the results of qualitative interviews with market experts reveals the difficulties in assessing cause-impact relations between regulation and market behaviour:
 - Its results emphasise a connection between regulation and the profitability of different business models and thus the amortisation of infrastructure investments
 - they suggest that, rather than having regulatory reasons, strategic investment decisions are predominantly driven by the overall economic situation, assumed demand for certain products, access to financial markets and perceptions about risks and chances associated with those investments
 - With regard to the relationship between institutional structures and investment decisions four aspects are highlighted:
 - the calculability of the regulatory environment
 - the transparency of regulatory processes
 - the duration of regulatory processes
 - the consideration of national particularities





Resulting Questions

- How effectively can regulation actually further innovation and investments?
- What regulatory designs are suited best to balance between the divergent interests of the relevant stakeholders?
- Which institutions dispose of the necessary knowledge to develop and maintain stable conditions?
- Where is room for improvement in the existing regime with regard to procedural aspects and future challenges?

