

**EU Commission Hearing  
Local Loop Unbundling**

Brussels  
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**Statement**

by

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Ladies and Gentlemen,

First, let me thank Commissioner Monti and DG Competition for having organised this hearing on local loop competition. The discussion about this issue is of particular importance as it gives us the opportunity to have a closer look at what regulation should be all about.

Before I will touch upon some of the questions which will be crucial for the future development of local loop competition as well as for implementing the eEurope action plan, I shall start with some remarks on local loop competition and the deployment of broadband DSL in Germany.

Germany was among the first countries to introduce local loop unbundling in the European Union.

Unbundled access lines are provided by Deutsche Telekom since 1<sup>st</sup> January 1998, the first day of full liberalization of telecommunications services. Prices have been set by the Regulator on the basis of the cost of efficient service provision (long-run incremental cost).

The number of 42 German respondents to the European Commission's sector inquiry alone illustrates how competition has evolved since 1998 in Germany. With more than 50 by far the greatest number of infrastructure-based local loop operators in Europe are established in Germany.

The intensity of local loop competition in Germany is also demonstrated by the number of unbundled local loops. To this day around 760,000 unbundled subscriber lines have been provided by Deutsche Telekom to its competitors. This amounts to about 90 % of all fully unbundled lines in Europe. Due to a continuous demand we expect to have around one million unbundled subscriber lines in place by the end of this year.

Looking at the roll out of broadband DSL Germany has the highest penetration in Europe. This is due to the fact that Deutsche Telekom has created a mass market for DSL. DSL is available almost nation-wide, small remaining gaps being closed via satellite technology. Apart from Deutsche Telekom there are already more than 30 competitors offering broadband DSL in Germany.

Deutsche Telekom alone has won more than 2,2 million customers within 18 months making Germany one of the leading broadband countries worldwide. For example, Germany has more DSL connections per household than the US.

This success story would not have been possible without heavy investment and the willingness to take business risks by Deutsche Telekom. This leads me to some of the regulatory questions which are crucial not only for local loop competition but for the future development of the entire industry.

Taking into account the need for implementation of the New Regulatory framework, the question now regulators and operators are facing is: What is the way forward in regulating the telecommunications industry?

In my view, the EU telecommunications policy is at a crossroad: the regulatory discussion has increasingly focussed on the asserted need for service competition (as apposed to infrastructure based competition). However, this discussion is not suitable to foster investment and innovation on telecommunications markets needed to promote eEurope.

Infrastructure based competition, a goal set out in the new Directives on electronic communications is at stake. Looking at the ambitious eEurope action plan, investment and innovation are much needed for the deployment of broadband networks and the provision of broadband services and – ultimately - the achievement of eEurope.

We have to realize that investment is about risk taking. Taking risk is about entrepreneurship. How does the creation of guaranteed profit margins for resellers as a result of regulatory intervention fit into this picture? Some players in the "regulatory market" even suggest that incumbents should not be allowed to introduce new services unless the respective wholesale services are in place.

We have to ask ourselves: Where shall any incentives for product and price innovation both for incumbents and for alternative infrastructure operators come from in the future?

What the industry needs is an investment friendly reliable regulatory framework in the long-run. This is

one of the pre-conditions to re-gain confidence of capital markets.

There is a clear choice to be made for the future approach to sector-specific regulation: Do we want to see competition between alternative broadband networks providing choice and innovative services to the customer? Then regulation should minimise insurmountable barriers to entry while safeguarding incentives for investment and innovation. Access regulation, now legally implemented in most Member States, should be sufficient.

In this context, I would like to draw your attention to recent developments on the other side of the Atlantic. In a US Court of Appeals Decision on local loop and high-speed Internet access the Court has ordered Regulators to reconsider two rulings dealing with local loop unbundling and line-sharing. The Court questioned the economic reasoning behind those regulatory instruments which are considered essential in the European discussion.

Even the FCC has been critical to the notion that competition in the local loop can be improved by the current regulatory instruments because they reduce incentives to invest into alternative infrastructure.

Finally, there is another important aspect we should bear in mind when it comes to the question whether regulatory intervention is needed. Market entry of alternative operators does not take place in all market segments at the same time and to the same extent. There are market segments, like the access market in rural areas, where we might never see more than one network operator. However, this does not mean that there is something wrong requiring regulatory intervention as long as customer's needs are satisfied. Regulation cannot force market entry in markets where this is from an objective point of view not attractive.

To sum up, the decisive question is whether we want to have service based competition with providers fully dependent upon continued regulatory measures or whether we opt for infrastructure based competition which is the only path to sustainable competition.

I would like to finish by sharing with you our vision on eEurope and the future of broadband Internet services in Europe. In due course, broadband content and applications will become accessible from different platforms. These different platforms

will compete against each other. In our view, this would be the best way to sustainable competition, providing customers with choice in terms of services, prices and technology. Inter-platform competition should therefore become the long term policy goal of EU telecommunications policy. Under such a scenario, the importance even of local loop regulation would fade away.

Policy-makers have to take into account market realities when defining the regulatory framework for broadband. As little regulation as possible should be the ruling principle for the implementation of the new EU regulatory framework in the current competitive environment.

The current ULL regulation ensures a level playing field until inter-platform competition has fully emerged. Any further regulatory intervention will not lead to more competition but creates obstacles for investment in broadband. We should keep in mind that the success of the Internet in the US and mobile communications in Europe are the result of market forces not restricted by sector specific regulation.

Thank you very much for your attention!