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High Speed Data Access: How Develop Competition?

Frank Esser, CEO. July 8th, 2002

Current situation in France for Local Loop Unbundling

- Absence of competition: 18 months after the French decree for LLU
  - ART has adopted more than 10 decisions to modify France Telecom LLU Reference Offer (high tariffs, discriminatory processes, technical barriers)
  - Only 116 sites for collocation have been delivered by France Telecom, and only 600 lines have been unbundled.
  - Out of the 20 operators which carried out experiment on LLU in December 2000, only 2 are really investing in LLU - and at a very slow pace.
- France Telecom is building a new monopoly: in the meantime…..
  - France Telecom has probably deployed more than 500 000 ADSL lines
  - France Telecom has installed ADSL equipment in about 2000 sites
- That monopoly is a threat to French and European competitiveness: the European Commission has recently pointed out the increasing gap between American and European productivity, partly due to a lack of investment in information technology. It is a real danger for economic growth.

France Telecom ADSL offers (1/2)

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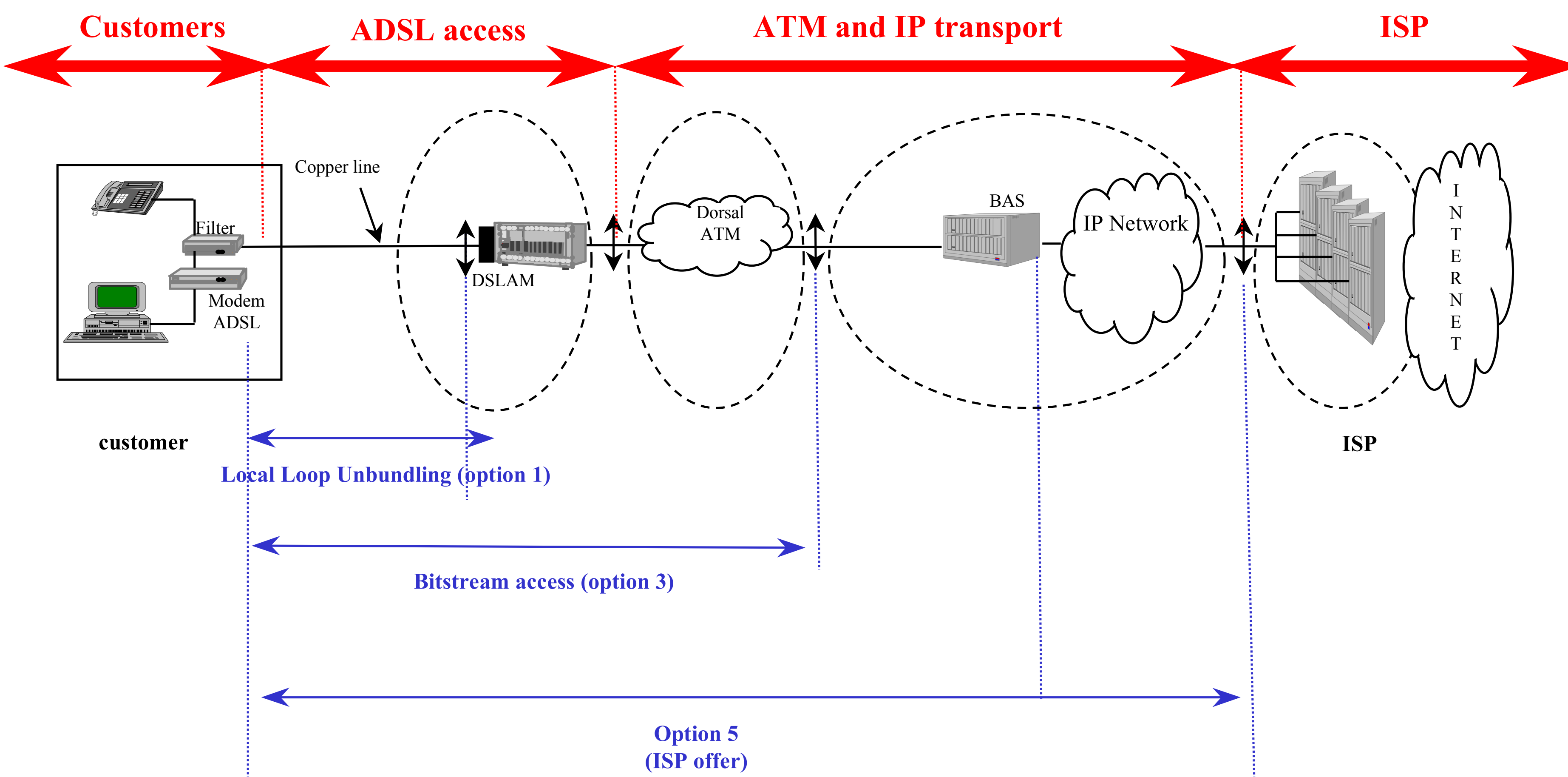
- **Option 1 (Local Loop Unbundling):**
  - Access offer for operators to copper line: full unbundling or line sharing.
  - New entrants must install their ADSL equipments in a collocation room (discrimination - except in the last version of FT offer)
  - New entrant can control all the parameters to define its various services
- **Option 3 (Bitstream access):**
  - ADSL access and collect offer for operators. FT delivers traffic of ADSL lines to 41 points of its network in France.
  - Provides the same ADSL coverage area as what FT offers with its retail offers
  - Key to compete with FT on the ISP market, especially on the residential market;
- **Option 5**
  - FT delivers on one point to the ISP the IP traffic of its ADSL customers.

ART has shown tariff squeezes between all options, making investments by competitive carriers impossible.

France Telecom ADSL offers (2/2)



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Price squeeze bitstream access vs. Option 5

Option 5 tariffs (€/month/line)	
Line rental	21,3
Set up fee	1,5
Collect (DSLAM --> 1 point)	13,1
TOTAL	**35,9**

Option 3 tariffs (€/month/line)	
Line rental	25,6
Set up fee	1,5
Collect (DSLAM --> 41 points)	5,3
Line overbooking	2,2
Collect overbooking	3,6
TOTAL	**38,2**

- set up fee: amortised over 3 years
- access and collect overbooking: for each Main Distribution Frame, France Telecom imposes new entrants to order line per 10 units and collect capacity per 1 Mbits, thus artificially creating an “overbooking” cost
- transport 41 points --> 1 point: the cost for new entrant to carry the traffic from the Option 3 41 points to one point, in order to compete with France Telecom Option 5 offer to ISP, is estimated **to 7 €/month/line**

New entrants can not compete with FT on wholesale market to ISP: FT offer is **35.9 €/month/line**, and new entrants can not do better than **45.2 €/month/line**

Outstanding issues

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- Option 1: the current FT Reference Offer for LLU comes very late (18 months of regulatory struggle), although it complies - at last - with ART decisions.
  - The collocation process is still discriminatory for the main cities ==> important barrier to enter the market
  - FT has deployed ADSL equipment in about 2000 sites ==> new entrant can not match this coverage area in the short term, through LLU.
- Option 3: this bitstream service is the only solution to rapidly develop competition for ADSL on the residential market. It offers the same coverage as FT with only few access points (only 41 points of access compare to the 2000 sites in option 1). But:
  - current Option 3 tariffs doesn't leave enough economical room to new entrant to compete with FT offers to ISP (Option 5)

1 - Option 3 tariffs must be adjusted to allow the development of investments and competition on the ADSL market. This is an urgent matter, since FT is monopolising the market.

2 - New entrants will move progressively to option 1, when and where economically justified (option 1 implies more CAPEX but less OPEX than option 3)