HEARING ON LOCAL LOOP UNBUNDLING

RAFAEL DIEZ
TELEFONICA SPAIN

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THE EUROPEAN FIXED LINE TELECOM MARKET IS CURRENTLY FACING DISCOURAGING PROSPECTS

- 1998-2001 AVERAGE ANNUAL GROWTH OF 3.4%
  AVERAGE RESIDENTIAL MONTHLY SPEND REDUCTION OF 3% ANNUALLY
  AVERAGE BUSINESS MONTHLY SPEND REDUCTION OF 5.4% ANNUALLY
- ESTIMATED 2002 GROWTH AROUND 2%. (1)

- POOR ECONOMIC SITUATION
- MOBILE TELEPHONY SUBSTITUTION
- IMPACT OF INTERNET SERVICES (FLAT RATE)
- MAJOR PRICE REDUCTION

(1) European Telecoms Review ING Financial Market June 2002

TELEFONICA SPAIN
THE KEY FOR FIXED-TELECOM BUSINESS
SUSTAINABILITY IS BROADBAND

• THE BROADBAND MARKET PROVIDES THE ONLY OPPORTUNITY FOR GROWTH.

• BROADBAND IS AN INFANT MARKET AND FAR FROM BEING DEVELOPED.

• REALISATION OF THIS MARKET DEVELOPMENT REQUIRES:
  ➢ INFRASTRUCTURE DEPLOYMENT IN A MULTIPLATFORM COMPETITIVE ENVIRONMENT
  ➢ INVESTMENT IN MARKET CREATION, TO HELP CUSTOMERS UNDERSTAND THE ADDED VALUE OF BROADBAND.
  ➢ SUPPORT OF INNOVATION, SAFEGUARDING THE INNOVATOR’S EFFORTS
  ➢ NO DISTORTION OF MARKET FORCES WITH EX ANTE REGULATIONS
WHAT IS THE ROLE OF LLU IN THIS CONTEXT?

• A TOOL THAT ALLOWS QUICK ACCESS TO EXISTING INFRASTRUCTURE FOR OLO’s AND EASES FACILITIES-BASED ENTRY AND EXPANSION

• However:
  ➢ THE LLU SHOULD NOT DISCOURAGE NEITHER INFRASTRUCTURE COMPETITION NOR ALTERNATIVE TECHNOLOGY DEPLOYMENT.
  ➢ BROADBAND INNOVATION SHOULD NOT BE PRECLUDED BY:
    • Regulating Retail Services
    • Extending Wholesale Service Obligations Beyond Current LLU
CURRENT LLU SITUATION IN SPAIN

- COMPLEX REGULATION ALREADY FULLY IN PLACE (TELEFONICA’S RUO APPROVED BY THE NRA CONTAINING 600 PAGES).
- SPANISH RUO INCLUDES BIT STREAM ACCESS SERVICES REGULATED UNDER THE SAME APPROACH.
- SOME DIFFICULTIES IN IMPLEMENTATION DUE TO PROCESS COMPLEXITY.
- LOW DEMAND FROM OLOs.
- VERY HIGH IMPLEMENTATION COST FOR TELEFONICA.
TELEFÓNICA SPAIN

LLU IN SPAIN

- TOTAL: 273,613
- WHOLESALE AND IP ACCESS: 227,014
- BIT STREAM: 46,445
- SHARED ACCESS LLU: 0
- FULL LLU: 154

- TELEFÓNICA’S INITIAL COLLOCATION OFFER: 967
- OLOS’ LOCAL EXCHANGE REQUEST: 109
- AVAILABLE LOCAL EXCHANGES: 108
- FULLY PREPARED LOCAL EXCHANGES: 69
- LOCAL EXCHANGE WITH LLU DEMAND: 45

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REASONS FOR THIS LIMITED DEMAND

➢ MULTIPLE INCONSISTENT LEVELS OF REGULATION
   ➢ EXISTING REGULATION (IN SPAIN) PROVIDES MORE ATTRACTIVE RESALE AND WHOLESALE ACCESS TO SERVICES:
     ♦ BETTER PROFITABILITY OF INTERCONNECTION SOLUTIONS FOR TELEPHONY TRAFFIC.
       • SAME LEVEL OF SERVICE DIFFERENTIATION
       • BETTER COSTS AND REDUCED INVESTMENT RISKS
     ♦ BETTER ECONOMICS OF REGULATED BIT STREAM AND WHOLESALE SERVICES FOR BROADBAND APPLICATIONS:
       • REDUCED COSTS AND INVESTMENT
       • REDUCED RISKS BY MARGINAL ECONOMICS

➢ UNCERTAINTY ON THE POTENTIAL OF GROWTH OF BROADBAND MARKET
   ➢ MAKING ALTERNATIVE REGULATED WHOLESALE EVEN MORE ATTRACTIVE
THE WAY FORWARD

➢ ENCOURAGE INFRASTRUCTURE & TECHNOLOGY COMPETITION BY:
  ➢ avoiding multi-layer regulation
  ➢ setting adequate prices & conditions for LLU

➢ HANDS-OFF REGULATORY APPROACH FOR BROADBAND

➢ AVOID DISTORTIONS OF LONG-TERM BROADBAND MARKET DEVELOPMENT FROM SHORT-TERM NARROW BAND OBJECTIVES