No competition without INTERCONNECTION

Renato Soru
CEO

Brussels, 8 July 2002
xDSL: No competition without INTERCONNECTION

xDSL:

THE RETURN MONOPOLIZATION

(*) Source: Nielsen NetRatings Q1-2002

(*) Source: Nielsen NetRatings Q1-2002
WHY MONOPOLY IS BACK:

- **FAILURE OF LLU**: effective replication of the Local Loop is not feasible, because of technical and financial obstacles;

- **WHOLESALE, a wrong model**: OLOs to become mere resellers. Strong dependence on incumbents’ tariffs and investment policies;

- **BARRIERS TO ENTRY**: persistent abusive conducts of incumbents, both at LLU and wholesale level.
To learn from the PAST (fibers):

Senseless duplication of fibers networks is bringing the whole sector to a very unefficient scenario, creating financial instability for carriers and seriously affecting suppliers’ and investors’ interests.
HOW TO EXTEND LIBERALIZATION TO xDSL: BACK TO INTERCONNECTION

- Competition for voice and dial up has been created by means of interconnection, without replicating the local access infrastructure;

- xDSL is just a technological evolution of the same local access network (same copper pair, same switch with upgrading for DSL);

- Interconnection rules (including cost oriented interconnection and non-discrimination) should apply to xDSL, without any difference with regard to voice and dial up
Evolution of the Local Loop

Voice
Carrier Selection
Carrier Pre-selection
Local Loop Unbundling

xDSL
xDSL wholesale
Local Loop Unbundling
INTERCONNECTION ?

xDSL: No competition without INTERCONNECTION
xDSL: No competition without INTERCONNECTION

Back to INTERCONNECTION

LOCAL LOOP represents a NATURAL MONOPOLY due to high infrastructure costs and strong impact of scale economies.

INTERCONNECTION represents the basic principle of liberalization: allowing the use of the incumbent’s access network at cost oriented tariffs, in accordance to transparent and non discriminatory conditions.
xDSL: No competition without INTERCONNECTION

Total interconnected ADSL line price
Interconnection to a parent/distant switch

The technical chain from the subscriber line to the 1st (Parent) ATM switch or to a Distant ATM switch of the incumbent can be represented with the following components and the relative cost elements:
xDSL: No competition without INTERCONNECTION

<table>
<thead>
<tr>
<th>Price Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High price</td>
<td>Minimun number of “Distant Switch”</td>
</tr>
<tr>
<td>Medium price</td>
<td>Limited number of “Gateway Switch”</td>
</tr>
<tr>
<td>Low price</td>
<td>Few 100s Parent Switches</td>
</tr>
<tr>
<td>ULL</td>
<td>Several 100s Local Exchanges</td>
</tr>
</tbody>
</table>

Possibility to be connected at the Parent Switches and to use own ATM transport or to be connected to a minimum number of Distant Switches