

**LEADING EUROPEAN STUDY SHOWS BUSINESS CASE FOR NEXT GENERATION
BROADBAND FAVOURS FORMER INCUMBENTS**

Economics of fibre networks prevent widespread replication

***ECTA calls for mandatory access to fibre networks in the EU Telecoms Framework to
counter anti-competition threat***

Brussels, 25 June 2008 – Definitive research, released today at the High Speed Europe conference, is the first to analyse the business case of rolling out next generation fibre networks across Europe. The study, carried out by WIK, one of Europe's leading telecoms research and analysis firms, shows overwhelming that only incumbent operators, with their extensive infrastructure and customer bases, can profitably roll out high speed fibre to the home (FTTH) lines to large parts of Europe. This raises the possibility that incumbents could once again increase their market share reversing the trend towards more competition in telecoms.

The research, which was commissioned by the pro-competition group ECTA, covers six major countries (Germany, France, Spain, Italy, Portugal, Sweden) and combines results from these with independent research carried out for regulators, Governments and the OECD in other countries, which reaches a similar conclusion. The WIK study demonstrates that, because of substantial economies of scale, replication of fibre access lines for high speed services is not economically viable on any widespread basis.

The research shows that it is significantly more cost-effective for incumbents to roll-out fibre networks than it is for entrant operators to do so. Incumbents can save up to 30% of their investment compared to stand-alone operators. The three key reasons are that incumbents already own ducts on a nationwide basis; they can make substantial efficiency savings compared with their current network structure; and they already have the number of required subscribers that would pay for the investments simply by switching customers from their existing lines. In some of the countries examined, significant viability was found for incumbents to roll out next generation access networks even with a relatively conservative return on capital of around 10%, which is commensurate with returns made on today's regulated copper access networks.

Dr. Karl-Heinz Neumann, Director of WIK said, “Incumbents have accepted in principle the concept of open ducts, but this research clearly shows this is not enough. Europe needs open networks and not just open ducts to generate a competitive environment and to develop an optimal degree of replicability and investment in a next generation access environment. Dominant firms should construct their networks from the outset to foresee access. Open networks in a competitive next generation access environment make good business sense and incumbents should improve their business cases by pursuing a positive attitude to infrastructure sharing and access.”

Innocenzo Genna, Chairman of ECTA, said, “With MEPs voting on proposals for the reform of the telecoms package on 7 July, now is the time for Europe to get this right. ECTA is calling for mandatory access to fibre networks to be included in the European Framework for Communications, in exactly the same way that unbundling of copper networks is currently mandatory. Without the appropriate regulation in place competition in Europe’s broadband market will be threatened, ultimately jeopardising Europe’s future economic growth.”

The study also finds that several Governments have pledged support for fibre roll-out through public funds. Countries where this is under active consideration or in place include Singapore, Australia, Sweden and more recently Greece. Genna commented: “Where there is no commercial case for rolling out fibre, Government support can be helpful in delivering on political objectives for high-speed networks. However, Governments need to ensure they secure a good deal through a truly competitive tender. Regulated open access networks must also be required as part of the process.”

The interim report from the WIK research was launched at ECTA’s Next Generation Access Conference, attended by Information Society Commissioner Reding; Catherine Trautmann MEP, rapporteur on the Telecoms Package in the European Parliament; Emmanuel Gabla, representing the forthcoming French EU Presidency; Matthias Kurth, ERG Chair in 2009, as well as other leading MEPs, national regulators and telecom operators. The final extensive study will be published in July.

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For further information (not for publication):

Barbara McCall
The Wordshop
Tel: +44 (0) 20 7031 8270
Email: bm@theword-shop.com

Background

WIK-Consult for the first time calculates the profitability and replicability for fibre roll-out across six major European countries (Germany, France, Spain, Italy, Portugal, Sweden). Model results are combined with conclusions from work done for regulators and the OECD on other countries to produce the first overview of fibre NGA economics across Europe. Relevant regulatory conclusions are drawn on the basis of the analytical and empirical results.

Main results

NGA fibre roll-out (FTTH as well as FTTC) needs substantial investment. A nationwide NGA roll-out is not profitable in any of the six countries. Even in profitable roll-out regions, the degree of NGA replicability is limited to very dense urban areas where one, two or at most three fibre operators can expect a viable business. Regulatory measures are needed to maintain competition in fixed line access. Duct access is not enough to reach relevant degrees of replicability and competition.

Detailed results

- NGA fibre roll-out needs substantial investment.
 - On a stand-alone basis a vDSL/FTTC operator in Germany would have to invest nearly €5 billion Euro to cover 40% of the total customer base for highspeed broadband access.
 - More than €3bln is required to reach 7% of households with FTTH in France.
- Incumbents are better placed than entrants to make these investments on a large scale.
 - The incumbent operator in Germany, for example, could save 1,4 billion Euro in investment compared to the stand-alone operator just by dismantling MDFs and by better use of passive infrastructure.
 - Further asymmetries follow from the larger retail subscriber base and lower cost of capital. Given these asymmetries, incumbents need lower critical market shares for profitability and/or can roll-out their network for more regional coverage.
- Without regulatory intervention, the degree of replicability of NGA infrastructure is rather limited.

- Absent regulation, just one second-mover entrant in Germany could theoretically replicate the incumbent's FTTC roll-out for 14% of the potential customer base at the maximum.
- Replicability of the incumbent's FTTH network in France is not possible without access to sewers (available in specific areas), infrastructure sharing and regulated access.
- Regulatory intervention and proper access products are a prerequisite for a competitive NGA market and can increase the degree of replicability significantly. However, duct access is not sufficient to develop the potential for competition – particularly when considering FTTH.
 - Under the (optimistic) duct access assumption of 80% duct usage vDSL/ FTTC is (theoretically) replicable in Germany for up to 18% of the customer base given a market share of 37%. FTTH deployments are not replicable even with duct access .
 - Under the best case scenario with duct access in France, replicability remains limited.
- Unbundled local loop fibre access and sub-loop fibre access can increase the scope for competition significantly. Unbundled fibre access at Metro Core Locations allows at least the existing degree of competition to persist and opens up competitive opportunities for more operators than unbundling of the existing copper loop.
- NGA will require a change in regulatory paradigms: The issue of access regulation in a NGA context no longer is how to provide access to existing network elements or services, but how to structure new network elements such that efficient access opportunities do emerge. If incumbents build closed architectures now it would become very costly for them to open them later.
 - The total investments for new street cabinets suitable for two operators only increase from 100% to 115%. In the German case, not taking care of collocation right from the beginning would increase VDSL street cabinet investments to roughly 200% (VDSL cabinets require energy, ventilation and other services for housing and maintaining VDSL active equipment)
 - The NGA architecture of point to point is more consistent with the principle of open networks. PON architecture can also be opened through 'fibre subloop unbundling', but only if the last part of the network is deployed in a point to point manner.
 - Incumbents can reduce their own risk and cost of rolling out NGA by sharing infrastructure with or provide access to alternative operators.

About WIK

WIK is one of Europe's leading telecoms research and analysis firms. It is focused on regulatory economics and policy issues. WIK has advised the EU Commission, numerous Regulatory Authorities in Europe and abroad as well as incumbents and alternative operators in all aspects of the telecoms framework and NGN in particular.

About ECTA

The European Competitive Telecommunications Association (ECTA) looks after the regulatory and commercial interests of new entrant telecoms operators, ISPs and suppliers of products and services to the communications industry.

ECTA works for a fair regulatory environment that allows all electronic communications providers to compete on level terms in order to multiply investment and innovation throughout an effective European internal market. The association represents the telecommunications industry to key government and regulatory bodies and maintains a forum for networking and business development.

ECTA [member companies](#) include operators, service providers and suppliers as well as National Associations of such which all contribute towards regulatory policy development and participate in our comprehensive range of networking events, conferences, seminars, briefings and executive meetings.