



# Ensuring Open Access: Active Layer Bottleneck

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# Introduction – BT in Latin America

- BT has operated in Latin America for a few decades.
- In 22 markets including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
- Employs 1000 people in-region.
- Extensive 180 POP pan-regional network covering Latin America supplemented by VSAT satellite capabilities.
- One of BT's major global operating centers is in Sao Paulo.

# Latin America Market Access: Snapshot Today

- Latin American regulators have made progress towards openness and transparency.
  - Chile has had an open, flexible operating environment for many years.
  - Brazil and Colombia have relaxed entry regulation significantly over the last decade.
    - Demonstrated commitment to open and public consultations.
- Yet much remains to be done.
  - Pricing: rarely cost-oriented or competitive.
  - Pricing set by regulator may be merely recommended (see e.g. leased line pricing in Brazil).
  - Margin squeeze is not uncommon.
  - No accounting separation or separation of any other kind.
  - No KPI.

# Latin America: Why Open Access is Important

- Most Latin American economies are expanding rapidly.
  - Global businesses are investing and depending more on Latin American operations.
  - Domestic Latin American businesses are becoming major players on the world stage.
  - Both need advanced telecommunications services deployed widely across Latin America.
  - Consumers need broadband access.
- Currently, Latin American fixed line business telecommunications services are more expensive and of lesser quality than in EU and USA.
- Need to drive improvements via competition.
- Open access is key.

# Open Access Must Include Active Remedies

- Benefits for business.
  - Business services infrastructure competition is likely to emerge only in very limited geographies – one or possibly a handful of city centers where there is a sufficient density of business customers to warrant buildout.
  - Without active remedies creating service competition, small and medium-sized businesses located outside a city center are unlikely to have options other than the smp incumbent.
  - Multi-sited businesses have the majority of their requirements outside city centers.
    - E.g. mining and oil and gas companies likely have many sites in remote areas. Retail goods companies have primary site distribution in urban, suburban and exurban locations (e.g. factories).
- Without effective active remedies to create service competition, the bulk of inputs for LATAM corporate VPNs are monopolistic inputs characterized by high prices and low service quality and innovation.

# Open Access Must Include Active Remedies

- Benefits for consumers.
  - In FTTN and FTTC deployments, it is unlikely that competitors will build out to street cabinets.
    - To achieve competition in NGA services, need active remedies.
  - Active remedies such as Bitstream services lead to more service competition, cheaper broadband and faster take-up of broadband. Increases network effects of broadband at a faster rate.
  - Benefits for mobile broadband as well
    - As mobile data requirements increase, fiber becomes a more efficient way to deal with exploding backhaul requirements (assuming geography is not a barrier). Service competition would bring down the cost of leased line backhaul to competitive levels and enable more cost-effective, efficient solutions for consumers' mobile services.

# Case Study

## USA approach of passive remedies vs. UK approach of active and passive remedies



# Case Study: UK vs. USA approach

- UK –emphasized service and infrastructure competition via active and passive remedies, in addition to functional separation and implementation of EC smp regulation.
  - BT NGA offers active remedies.
  - Wholesale Ethernet, PPCs and Bitstream services.
  - Unbundling of copper.
- USA – emphasized infrastructure competition 2001-2008 and withdrew much regulation promoting active remedies. No accounting separation or other kind of separation.
  - NGA regulatory holidays.
  - No Bitstream
  - Elimination of line sharing and UNE-P.
  - Ethernet deregulation.
  - Deregulation of leased lines in major markets representing much of the US demand.

# Case Study: UK vs. USA approach

- Net result
  - UK has higher broadband penetration than USA.
  - UK has lower average broadband prices than USA.
  - UK experienced steeper uptake of broadband than USA 2001-2008.
  - UK has lower business access prices than USA
    - UK has lower tariffed PPC prices.
    - UK has lower Ethernet prices.

# Case Study: UK vs. USA approach

- Both USA and UK will be roughly even on expected Fiber to the Home (FTTH), Fiber to the Curb (FTTC) and Fiber to the Node (FTTN) deployments by 2012 (though the USA FTTH/FTTN passes more homes in 2010 than UK FTTH/FTTC, USA deployment is slowing while UK deployment is accelerating).
  - USA expects to achieve 44% of US homes passed by FTTH and FTTN by 2011.
  - UK's BT expects to pass 40% of UK homes with FTTC or FTTH by 2012 and 66% by 2015.
- UK DSL coverage is superior to USA – 75% of UK homes will have access to upto 20Mbps ADSL2+ by Spring 2011.
- **Conclusion – overall outcomes for businesses and households (services, infrastructure and pricing) are superior if effective regulation and a combination of active and passive remedies are pursued.**

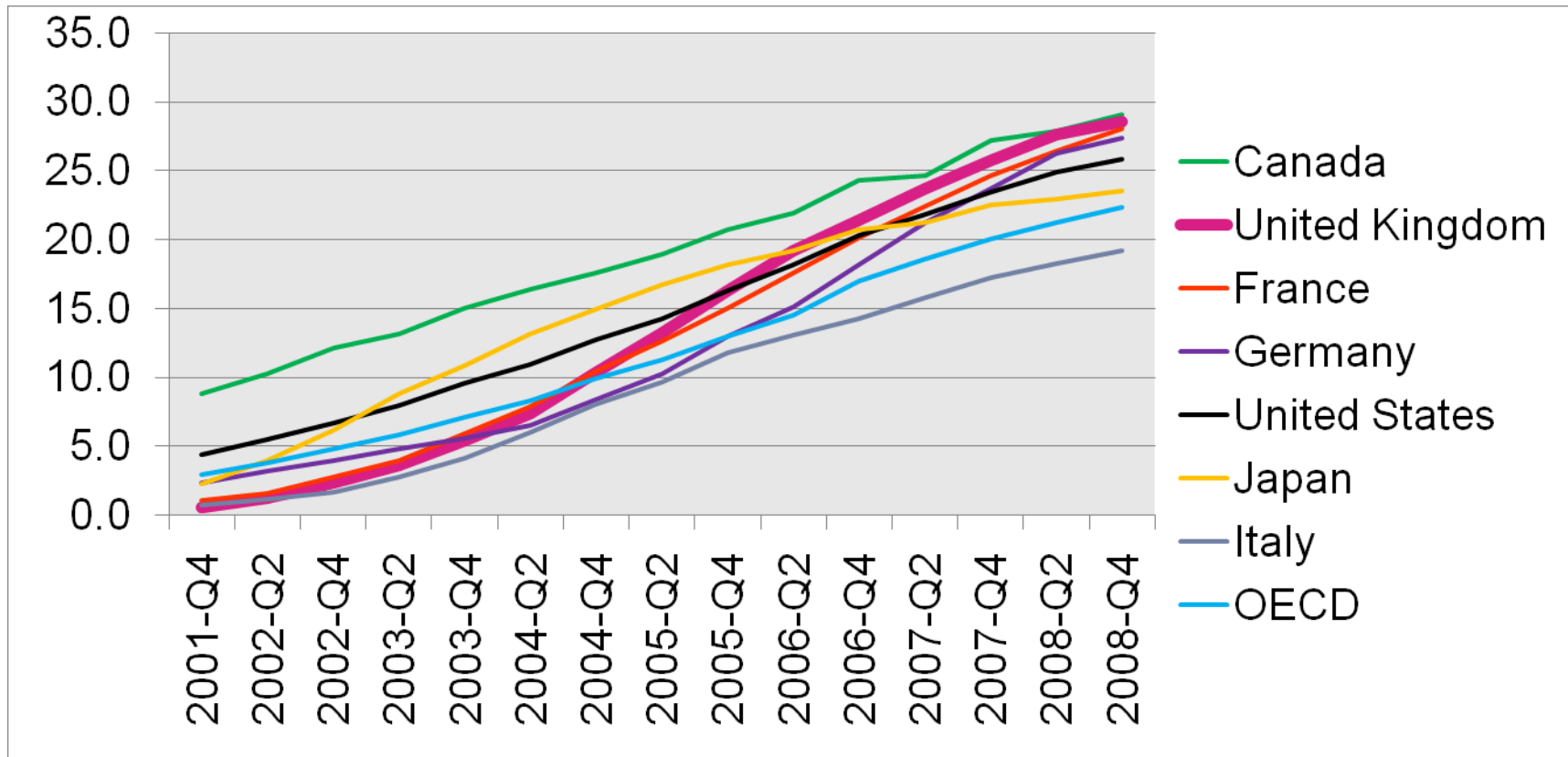
# Case Study

## Annex 1 -- Charts

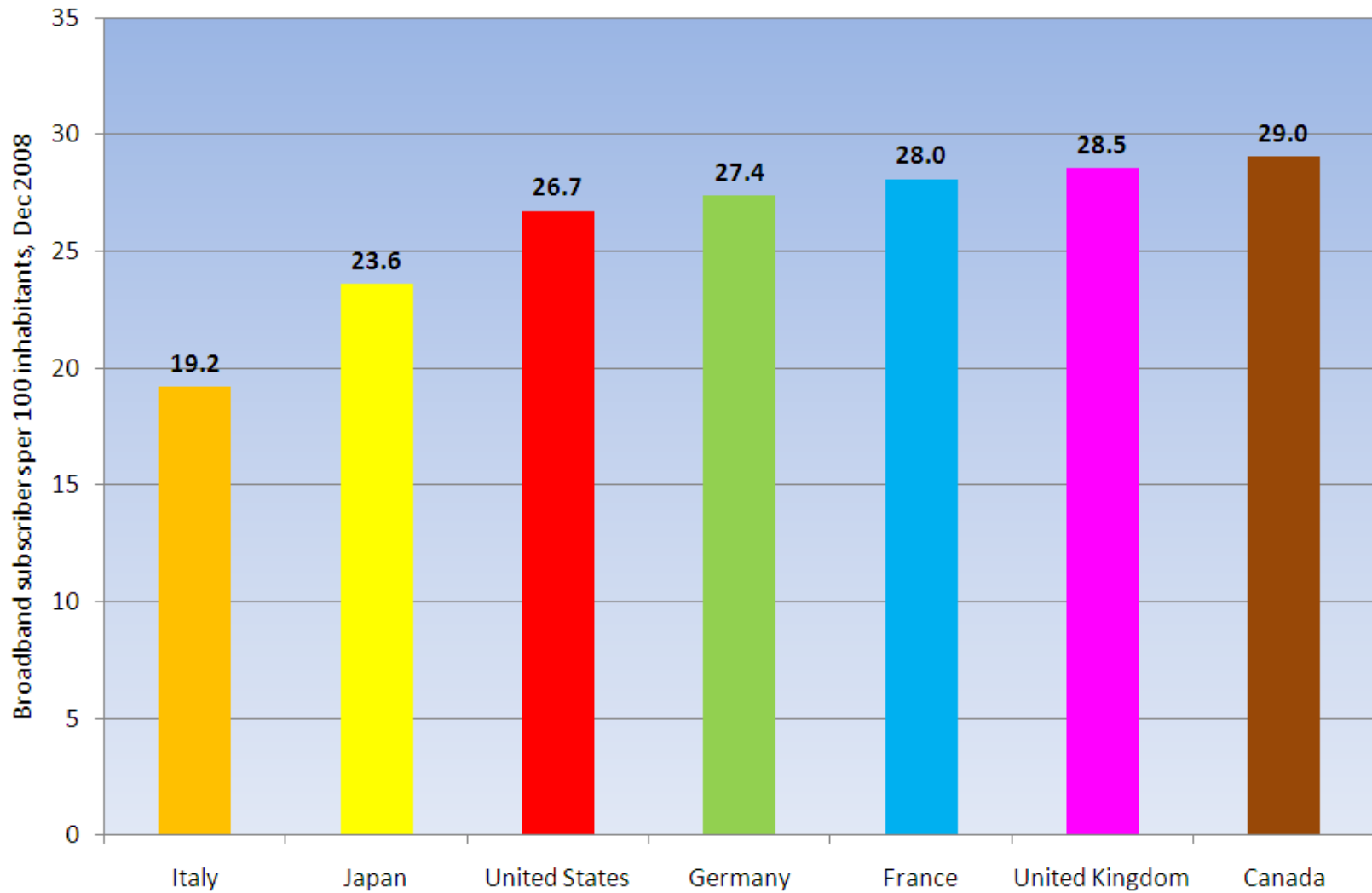


# Effective regulation of access bottlenecks has driven accelerated broadband uptake in the UK

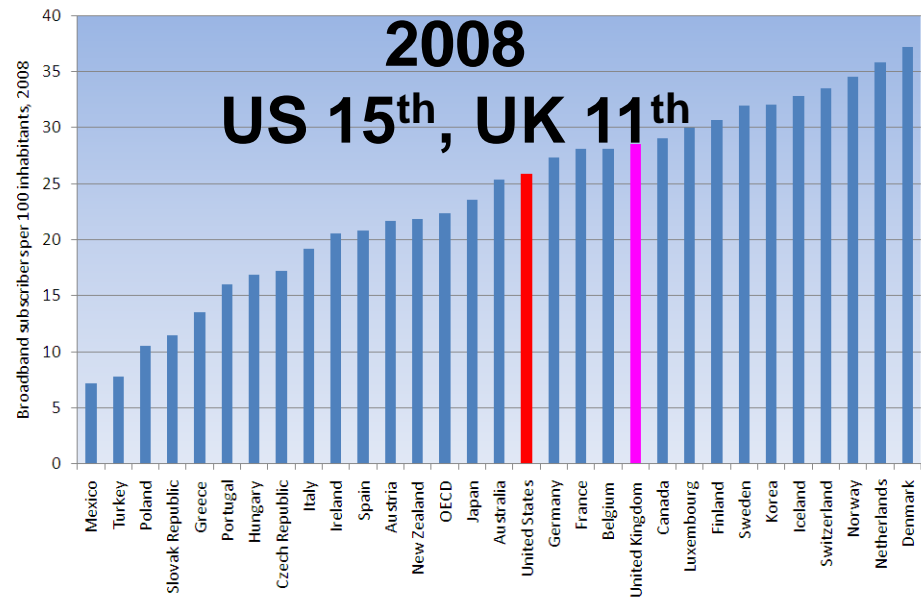
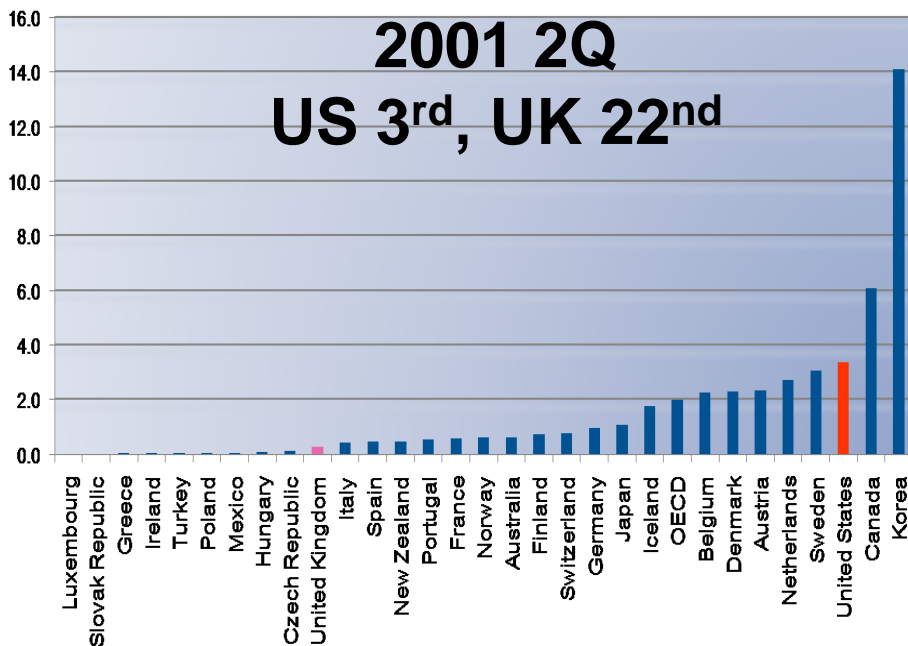
- Steeper rate of broadband penetration in UK versus USA.





# Broadband penetration in major economies



# Improved UK broadband performance enabled by effective regulation of access bottlenecks

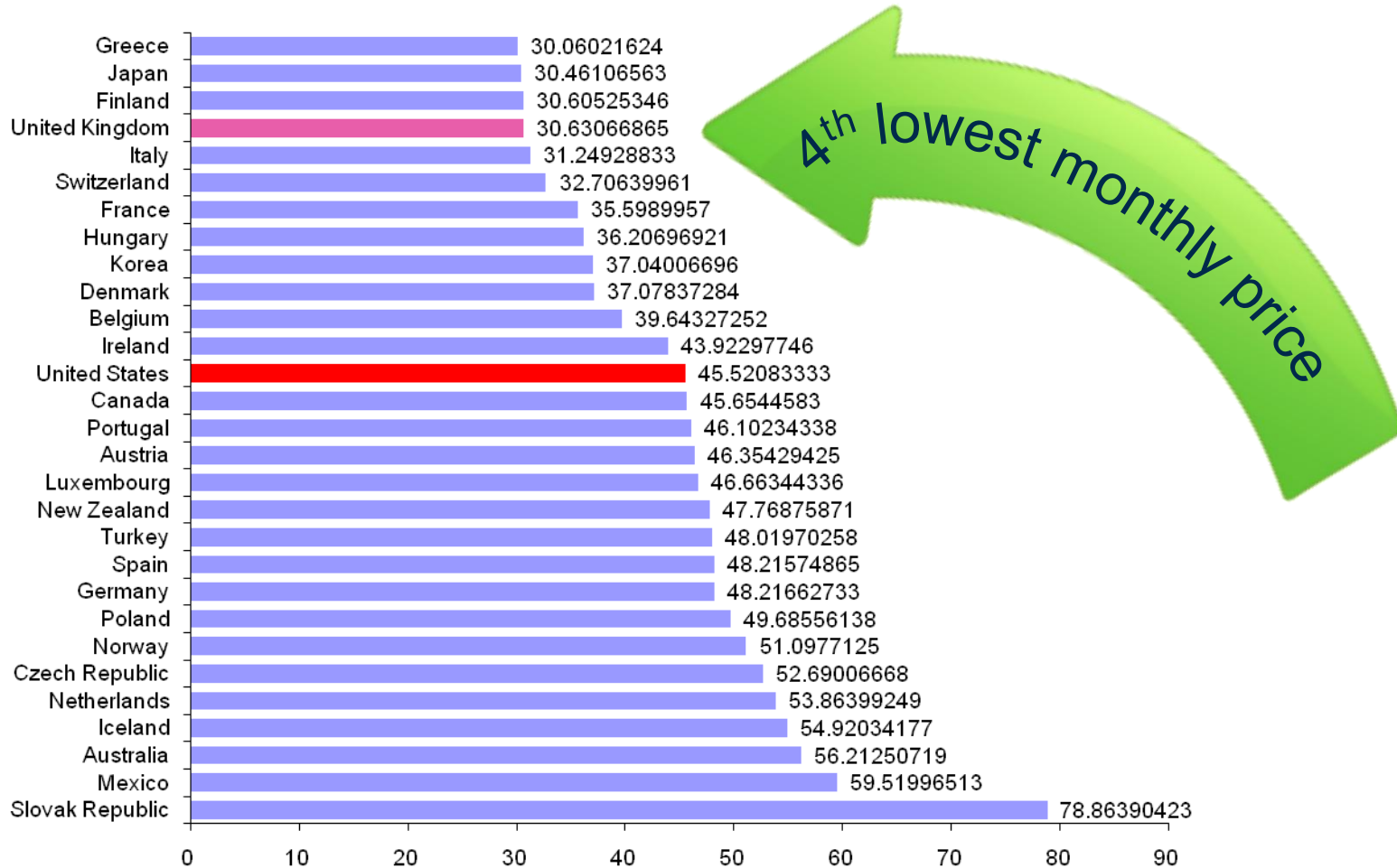


UK is 11<sup>th</sup> in OECD ranking today whereas it was in 22<sup>nd</sup> place in 2001  
USA ranks 15<sup>th</sup> whereas in 2001 it was in 3<sup>rd</sup> place

 = UK  
 = US

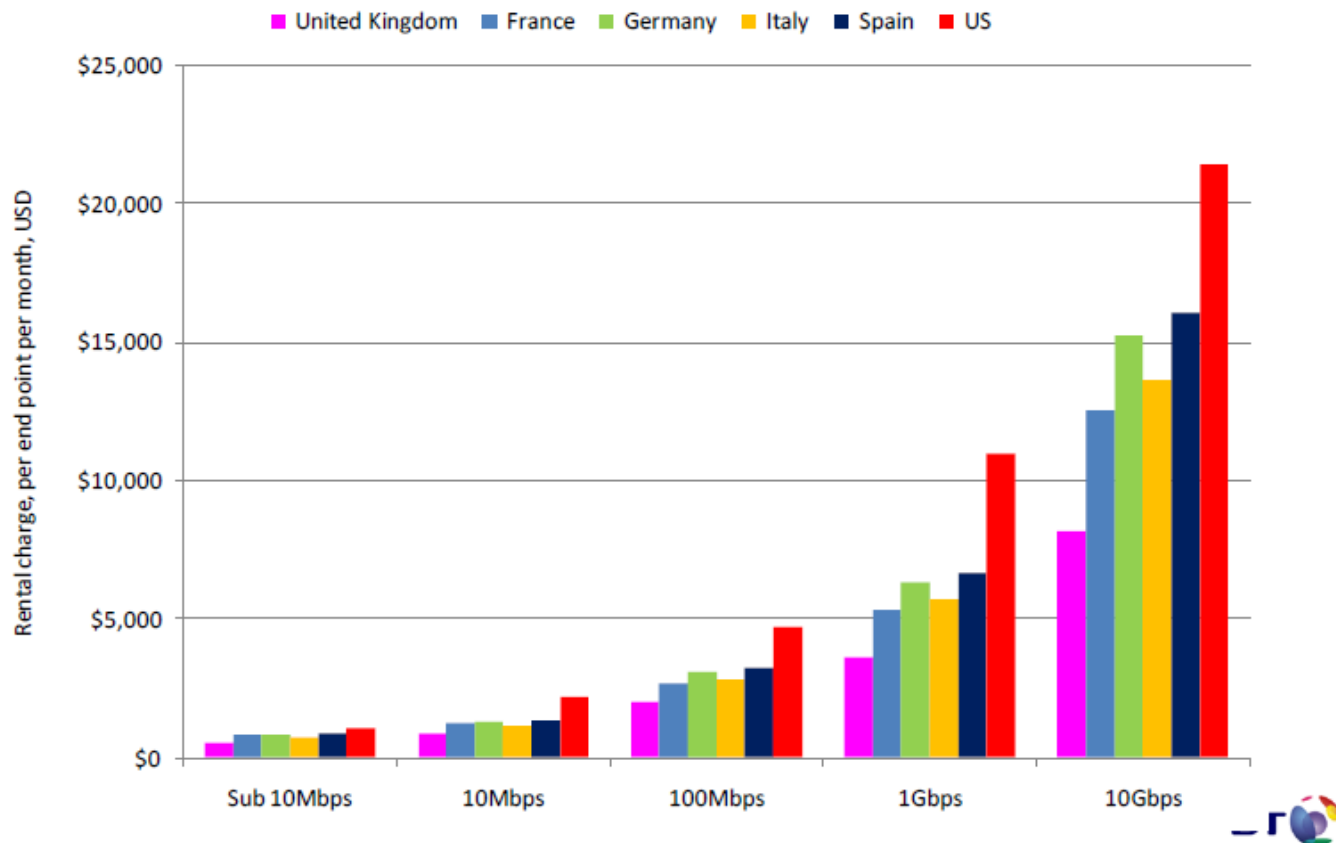
# Intense intra/intermodal competition has lowered prices for broadband subscribers

Broadband average monthly subscription price, Oct. 2008, USD PPP



# UK has lower Ethernet prices than USA

## National Prices

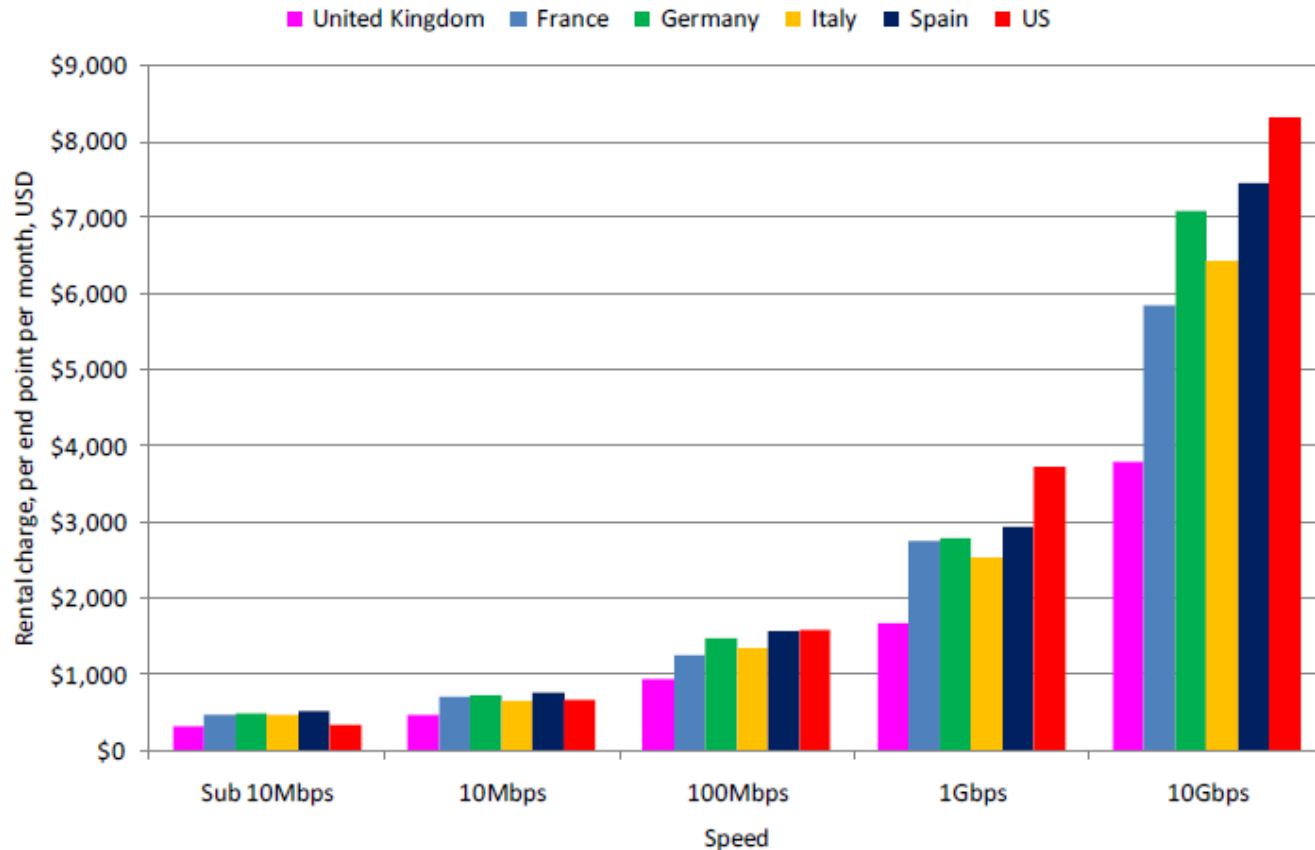


Enterprise Ethernet Services Forecast, September 2010, Ovum. For national circuits, the "end point" is the port plus half of the distance of the cross-country circuit

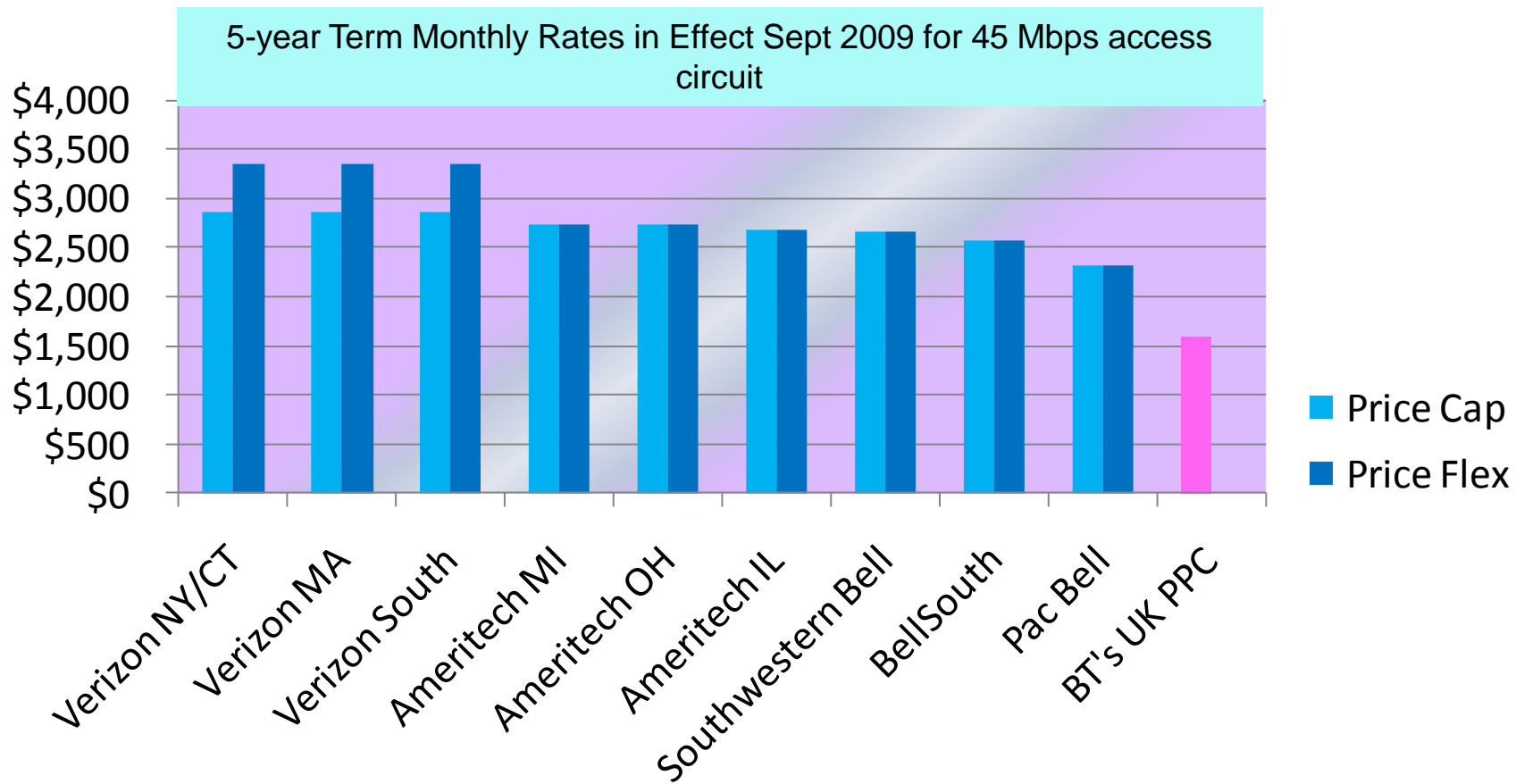


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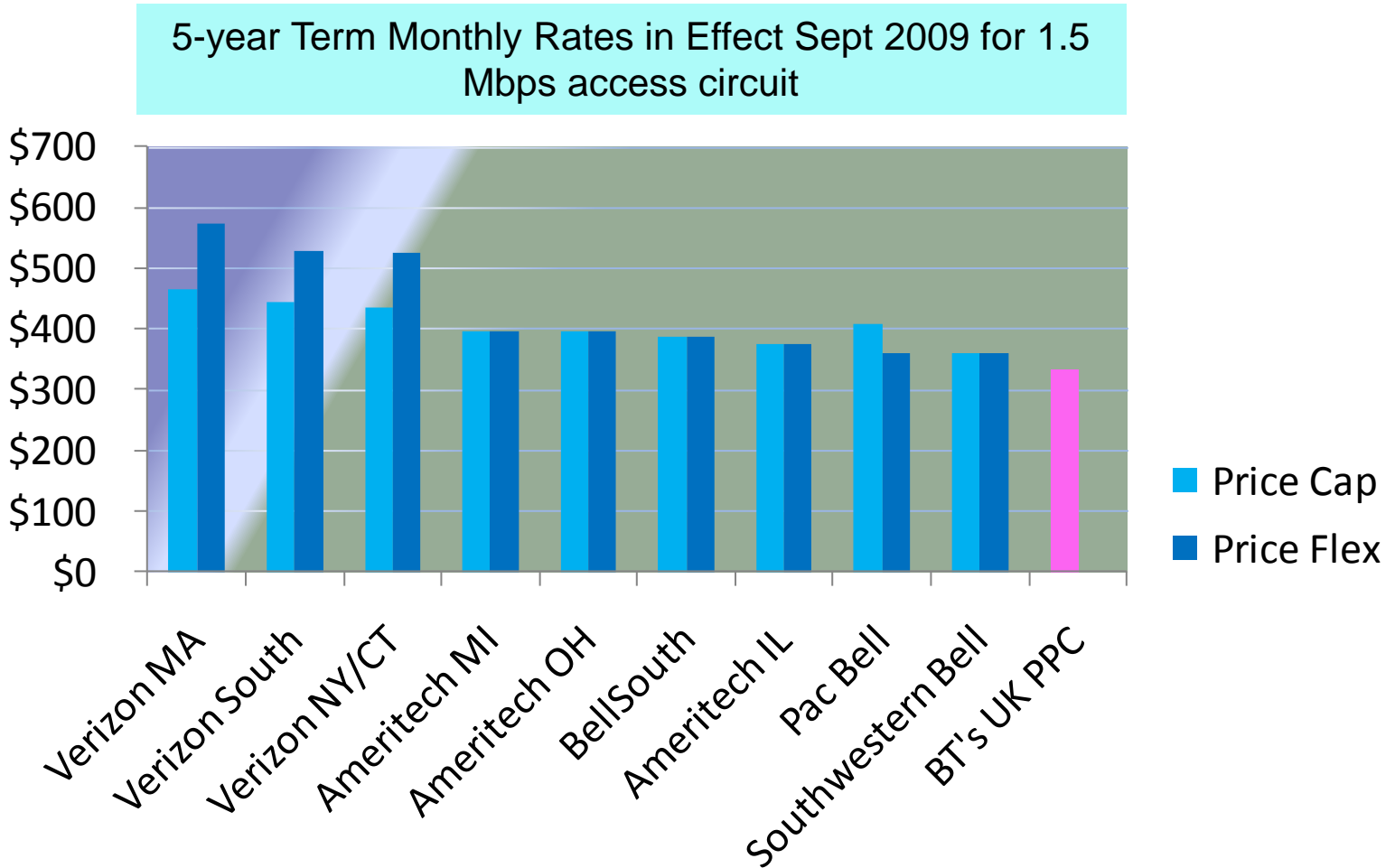
## Metro Prices



# BT's UK PPC rates are lower than USA Bell equivalent

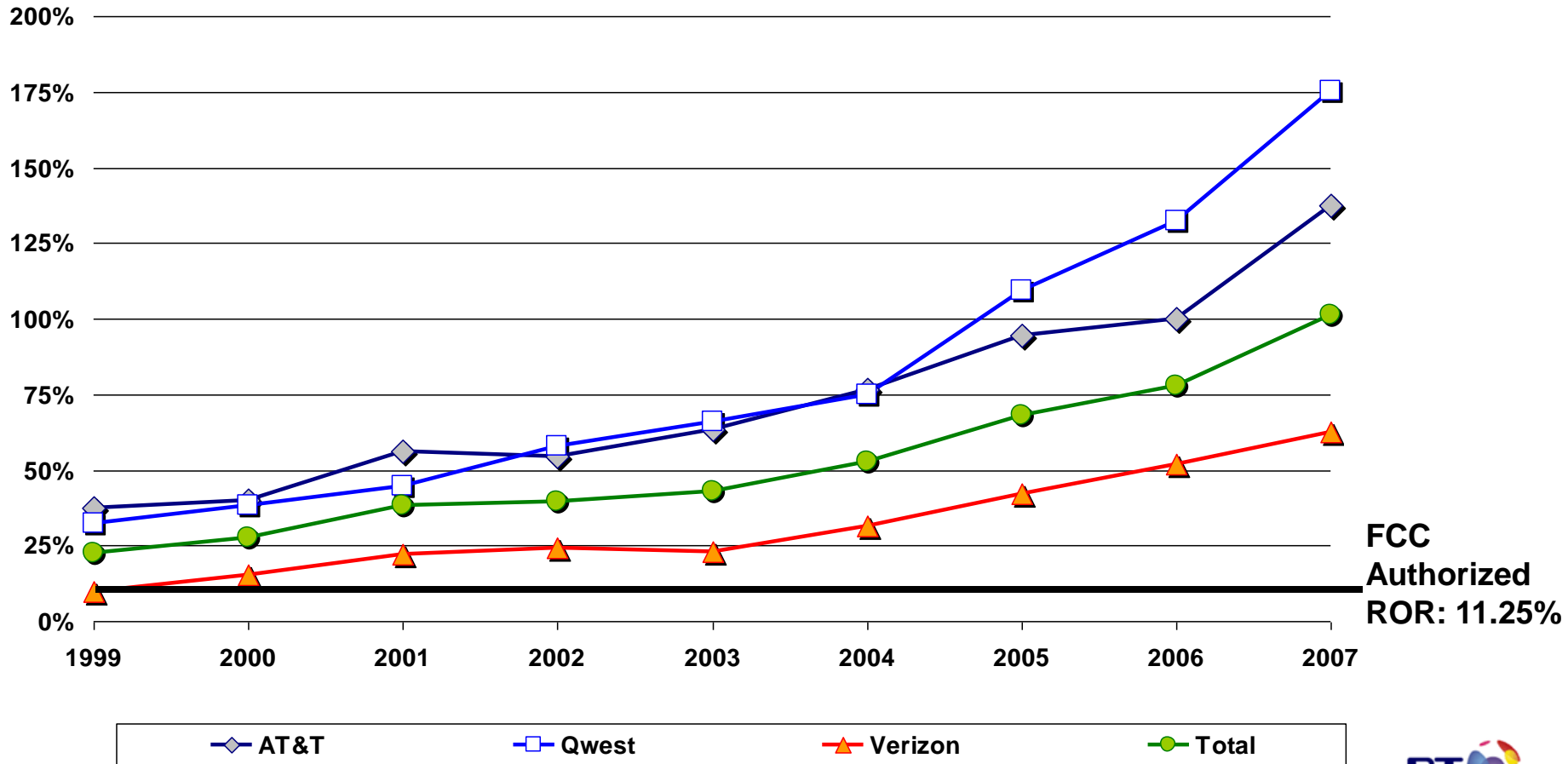


# BT's UK PPC rates are lower than USA Bell equivalent



# Bells profits soar under deregulation

## Escalating Bell PPC Equivalent RORs



# Case Study

## Annex 2 – Explanatory Notes

### Regarding PPC Pricing Comparisons



# ANNEX 2

Verizon's and AT&T's special access rates are derived from their applicable FCC interstate access tariffs. Rates are Zone 1, five-year term rates and are computed for a hypothetical circuit consisting of ten miles of interoffice and two channel terminations at either end of less than a mile each. Rates include a 12.9% USF charge.

BT's PPC rates are available at [www.btwholesale.com](http://www.btwholesale.com). They are likewise computed for a hypothetical circuit consisting of a main link ten miles long (fixed and mileage charges for ten miles), a local customer end of less than a mile (fixed and mileage charge for less than one mile) and a handover charge between the incumbent BT and the competitive provider. Annual rates plus point of handover charges were computed for five years and then divided by 60 to derive an equivalent monthly five-year term rate. BT's rates are geographically neutral – *i.e.*, BT's rates are the same regardless of geography. Hence the price comparison to AT&T's and Verizon's Zone 1 rates are more favorable to these Bell companies than a Zone 3 or Zone 5 rate comparison would be.

Nonrecurring charges were not included in the US and UK pricing calculations because a like-for-like comparison was not possible. BT's UK rate was converted to USD using the OECD's 2009 Purchasing Power Parities rate of \$1.00/£0.654. The OECD's PPP rates are available at [http://stats.oecd.org/Index.aspx?datasetcode=SNA\\_TABLE4](http://stats.oecd.org/Index.aspx?datasetcode=SNA_TABLE4).



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