# Wholesale Only Operators

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# Agenda

- Some overarching observations on vertical (dis)integration
  - General economic research and some history
- The peculiarities of the telecom sector
  - Investment co-ordination and investment cycles
  - Incentives to invest
  - Non-price discrimination
  - Financing and the ability to invest
- Technological change
  - How network structure and cost profiles may influence our views
- The provisions in the Code and implications
  - The various provision in the code
- Conclusion

# The literature

- Large number of studies considering the effects of vertical integration or separation on efficiency, firms' performance and consumer outcomes across a range of industries..
- Lafontaine, F. and Slade M. conducted an exhaustive review in 2007..
  - *We are therefore somewhat surprised at what the weight of the evidence is telling us. It says that, under most circumstances, profit maximizing vertical-integration decisions are efficient, not just from the firms' but also from the consumers' points of view.*
- OECD studies, 2001, 2004, 2011, 2015

# Peculiarities of telco networks 1

- Non-price discrimination
  - Price discrimination difficult over time
  - Non-price discrimination difficult to detect
  - Rationale for 75% of ongoing regulation
  - Big plus for service providers
- Financing and the ability to invest – gap in the literature?
  - Vertically integrated - stressed balance sheets
  - VI Investments classified as technological/risk
  - By separating network out, create a new investment class for long term investors
  - Long term infrastructure, long cycle low risk

# Peculiarities of telco networks 2

- Investment co-ordination and Incentives to invest
  - Investment risk/reward become separated
  - Network competition may diminish (monopoly signal)
- Investment cycles
  - Incentive to prolong and extend the investment cycle as long as possible
  - Network effects, the concentration of market power and impact on competition
- Will VI operator also separate?

# Infrastructure competition

- Density is the #1 driver of cost, loads of other comp factors but this is the key one.
- Rural areas are low density so the prospects of infrastructure competition are low.
- Urban areas are high density so the prospects for infrastructure competition are high.
- Separation undermines infrastructure competition.

# Technological change

- Hard to explain the amount of PtMP in the markets except in strategic terms….
- Almost all WO operators are PtMP with some notable exceptions (e.g Stokab)
- Allows more value extraction and control of more of the value chain
- Service evolution that depends on network upgrade will need agreement e.g. the ability to support 5G will often be limited without an upgrade… incentive to extend investment cycle….

# What's in the code?

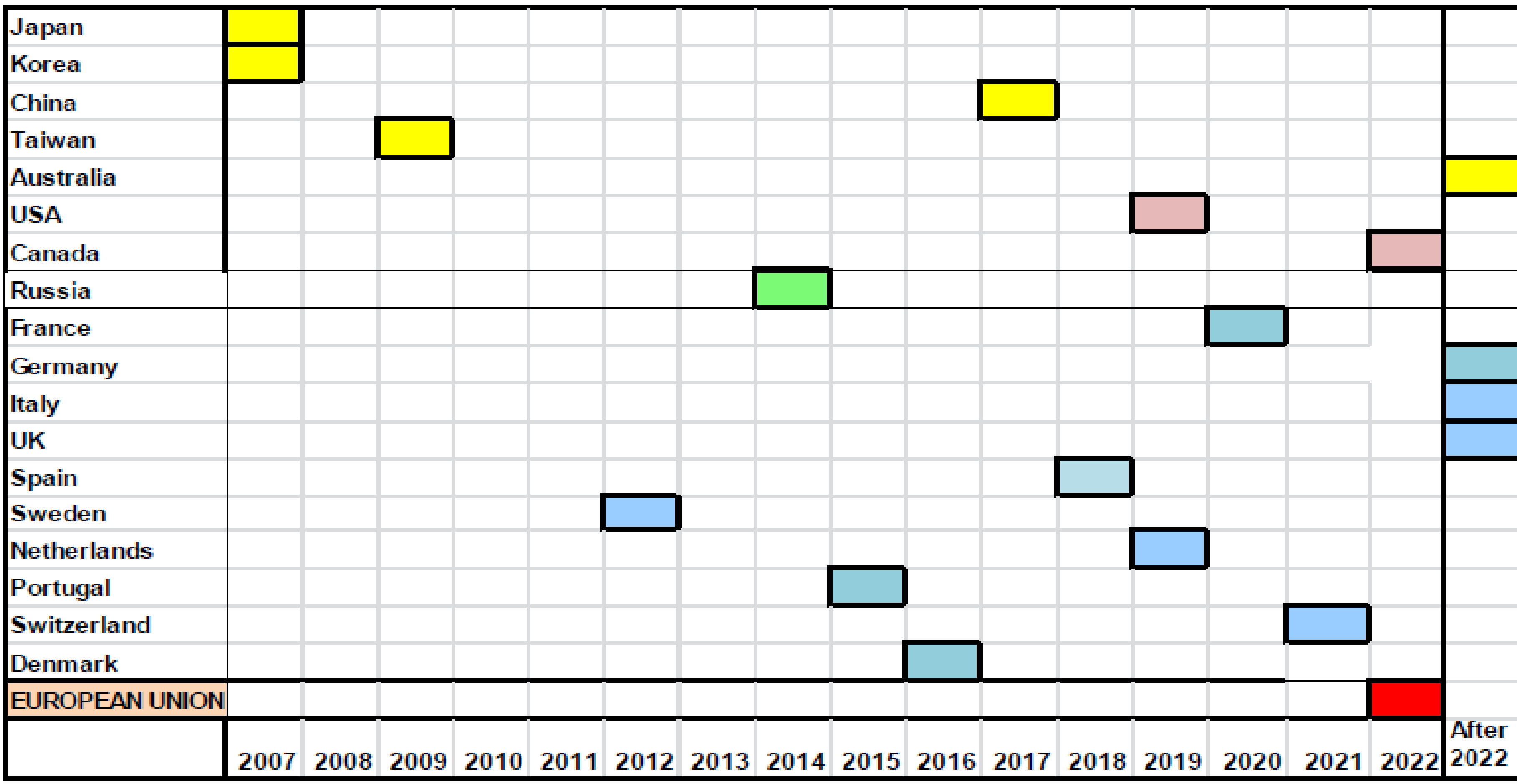
- Much of what is in the code amount to encouraging various forms of separation.
- WO operators are exempted from all obligations (even passive access when there is no SMP).
- Even if there is SMP, WO operators would be exempt from almost all price obligations
- If an incumbent becomes WO, same rules may (or may not) apply.
- Do most co-investment vehicles amount to a form of separation/WO? E.g. SIRO?

# What are we seeing in the markets?

- WO Operators are very dynamic – well capitalised and moving at speed (relative).
  - Where incumbents have been laggards on FTTH, they have left the door open for WO e.g. Ireland, UK, Italy, Germany… but not limited to those countries, France, Sweden…
  - Incumbents are reacting – TI may separate also SFR  but in general incumbents are accelerating their investment plans
  - Market is moving to be more separated….
  - Most WO face VI competition so upgrading…

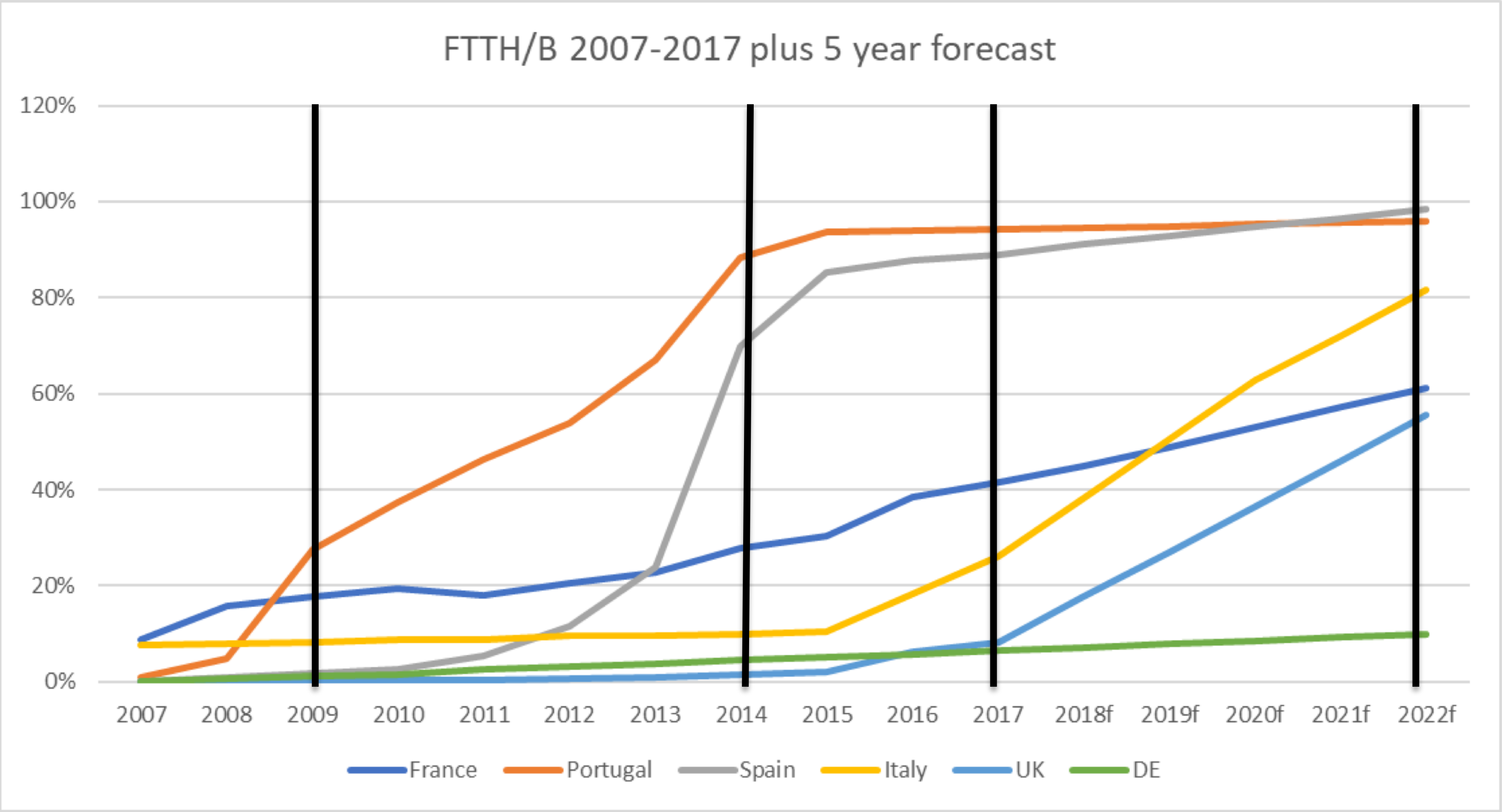
# The view in 2014

## The Race To FTTH Maturity*




*Defined as 20* household penetration

# The view today*…




* iDate for FTTH Council Europe, forecasts from Barclays, company reports

# Conclusions 1

- WO is very good for FTTH investments…
- Lot of positives – no incentive to discriminate which is very good for services competition – can raise capital for large scale investments.
- Some negatives – undermines infrastructure based competition while promoting service based competition – not an issue if there is no prospect (grey to white areas) but more problematic if in a 'black' area.

# Conclusions 2

- Incentive to prolong investment cycle. Facing VI competition limits the ability to slow upgrades.
- If separation continues incentives to invest in the next cycle may be less – WDM, 5G etc.
- Move to SDN, NFV more or less likely?
- Medium term move back towards monopoly?

# Thank You!

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