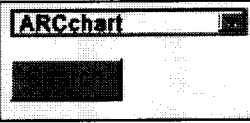
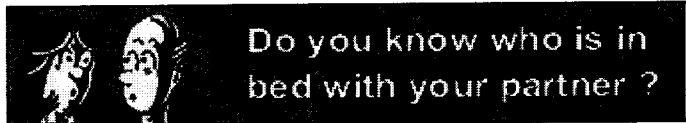


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Editorial: Time to tilt the playing field
David Molony

17 December 2001

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The broadband telecoms market is being surrendered to incumbent operators on both sides of the Atlantic and the telcos are seizing the prize with both hands.

Their remaining competitors are going to need much more help, especially now that we can see more clearly the indifferent economics of fighting protected network-owners.

It is time to tilt the playing field in favor of competitors. The so-called level playing field has only worked to the advantage of the incumbents.

Jan Geldmacher, managing director of T-Systems International, the network integration division of Deutsche Telekom, told the annual IDATE conference in Montpellier last month that Telekom has unbundled 400,000 lines in Germany. The company is unbundling almost as fast as it is connecting its own DSL customers. IDATE's researchers expect Telekom to have 2 million DSL subscribers by the end of the year, making it far and away the broadband success story of Europe (see the Industry viewpoint in www.totaltele.com).

Why would they be doing this? Other telcos may be missing a trick here. BT with its 195 lines unbundled and France Telecom, with 20, are well behind Telekom for DSL roll-out. They are losing income from network interconnect as well as new broadband users. But that's not the only opportunity cost.

If they were really clever, these telcos would be unbundling around the clock - like Telekom - because it is proving a great way to contain potential competitors.

And that is not just because local loops are expensive as well as difficult to get. The broadband access debate may have focused too much on this.

In fact, it is vital that incumbents release their stranglehold on broadband backhaul and offer affordable leased lines, whether as partial private circuits or similar models, because that will transform the business of broadband for the benefit of both corporate users and increasingly restless consumer end-users.

A new report by the Phoenix Center for Advanced Legal and Economic Public Policy Studies in Washington DC says the economics of unbundling to create an alternative single network just don't stack up. Using the incumbent's lines and other plants may be cheaper than building your own network, but you will need so much that - given marketing costs - your cash-pile may run out before you achieve economies of scale.



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According to this study, the new entrant will spend at least \$2 on non-plant entry costs for every \$1 spent on unbundled plant. The Phoenix report's authors reckon any new entrant will need a 35% market share to be viable.

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The answer may be the creation of a pure wholesale network operation, so that new entrants are not competing on investment with each other.

WHAT

It's beginning to look like a tall order for local competition. As we reported last issue, Liberty Media is getting cold feet about local cable network investment in Germany. Some operators may make the breakthrough: Firstmark Communications France has just commissioned its 14th broadband wireless city network, in Montpellier.

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But as we begin to understand the economics of local access business better, we need to see more of such stories. And we must get urgent action on that crucial "middle bit" of the broadband network.

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