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PERSPECTIVE:
WHY LOCAL LOOP UNBUNDLING IS NO TELECOMS PANACEA

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Call it what you will – “unbundled network elements,” “UNEs” or “access to raw copper” – forcing incumbents to provide rivals with access to elements of the local loop (either a la carte or by full resale) is a major cornerstone of current telecoms restructuring efforts.

While this notion may seem simple in concept, in reality unbundling is an extremely complex story that must be viewed in the context of broader telecoms restructuring efforts. Requiring incumbent operators to provide new entrants access to raw copper can have numerous pro-competitive benefits.

In particular, it permits new entrants to have initially the appearance of “ubiquity” and economies of scope necessary to enter a very costly business.

Where current efforts fail, however, is in the belief of many regulators that unbundling is sufficient, in-and-of-itself, to solve telecoms’ current ills and therefore they need not do anything else to promote additional facilities-based entry. Wrong. So long as regulators do absolutely nothing to expand the already extremely constrained market for local loop facilities, then consumers will suffer in the long-run with the current “static, incumbent-centric perpetual resale model,” because neither incumbents nor new entrants will have any incentive to invest in new plant.

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The common excuse for this lack of policy priority on concurrently promoting infrastructure entry essentially boils down to a “ripeness” argument.

That is to say, many regulators contend that because no new entrant will build any facilities unless it is assured of a customer base and revenue stream, entry will occur only if new entrants are permitted first to enter by resale in order to stimulate and consolidate alternative demand. As such, these regulators argue that giving priority (either equal or superior) to infrastructure investment over unbundling improperly promotes a “Build it and They Will Come” entry strategy and is just, as the film title goes, a “Field of Dreams.”

Sadly, this is not a policy of “Field of Dreams” but of “Waiting for Godot.” Let’s be quite clear: we are not talking about Malaysian real estate here. We are talking about an industry with an almost insatiable demand for new capacity. Unfortunately, however, this demand will never be satisfied so long as regulators continue to impose barriers to entry in the name of promoting consumer welfare.

The pro-competitive reasons why policy-makers must also concurrently promote new infrastructure entry are undeniable. Perhaps the most compelling reason is that to the extent the market can sustain additional providers of alternative local-loop distribution companies (“ADCos”), the overall structure of the distribution market will shift and become more elastic.

As this shift occurs, the incumbent will no longer have the incentive to engage in entry-detering strategies, but rather have an incentive to disaggregate voluntarily - rather than by intrusive regulatory fiat - its loop plant from its marketing activities because it will be a more efficient and profitable way to organize its business. That is to say, the incumbent will find under this market structure that it will make more money by disaggregation because its network operation will be able to sell more loops to more providers, and because its marketing operation will be able to provide cheaper service since it will be able to buy loops from competitive infrastructure providers.

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This story is precisely what motivated the AT&T/Lucent disaggregation and why extremely profitable firms such as Scottish Telecom have organized their business in such a fashion.

In sum, if telecoms regulators truly want restructuring to work, then they must view unbundling in the correct context. Remember, what we don't need are more "competitors" or "choices" *per se* – what we need are more loops.