

Regulations and Regulators.

An important topic today is the regulatory influence in Telecoms.

The National and Brussels regulatory bodies seem to continue to draw attention with measures and laws that keep hampering the industry and in the end also turn bad for customers and the public as a whole.

The first step to destruction was the general deregulation (what a strange word) and liberalization of the telecommunications market. New players were stimulated to enter the market, to spend fortunes on building the necessary infrastructure and to attack the market. Numerous new companies started and have disappeared, leaving their debts, failing their customers and ruining the share values in general. The argument that customers enjoyed low priced services is true, but the society, including those customers, suffered because the stock exchanges collapsed, they had to find new suppliers at higher costs. Basically everybody has lost.

With the rules around liberation the Regulators organized a marathon running contest between the incumbents and the new entrants while binding the hand and feet of the incumbents, expecting them to loose. The old story of the hare and the tortoise became true again. The new competitors took off like arrows, borrowed huge capitals from the banks, started building their businesses and soon found out that there was not enough market and not enough revenues to pay their expenses and interests. Most died before the finish, while the incumbents crawled forward (some hurt and partially invalid) and made it as winners. The result looks like a new type of monopoly situation.

Local Loop Unbundling is the second regulatory invention that has turned into a debacle. Although it has worked somewhat in the voice arena it failed miserably in the data and especially the local loop field. Each player should have access to the local loop while prices and profit levels for the supplying companies (incumbents) were dictated by regulators. All local loop has been previously invested by the incumbents under the old monopoly structure but with self-generated cash when this business still made profits. No surprise these incumbents are not too eager to co-operate in this scheme. Of course the incumbents are in the best position to create services themselves on the infrastructure. Around 80-90 % of all xDSL is provided by incumbents at competitive pricing. As far as we can see the domestic broadband is and will be for a foreseeable time a niche market. This creates a challenge in pricing and provision. We should not allow governments to invest in nation-wide broadband to the home because the total population would sponsor (via tax) a small part of potential users. Those who need it have to pay the price. "Nice to have" is no longer a valid argument. Some universities supply their students with multi-megabytes internet access for practically free (mainly for downloading music and movies). When the graduates enter the real world they will expect the same but will stagger at the price to pay. Giving it all to incumbents is not a solution either because they cannot raise the cash to invest and it would re-create the monopoly situation.

A fair question however is whether customers would object to a monopoly provider as long as the service is good and the price represents value for money. Various experts have suggested to find new ways to finance the (broadband) local loop in different and new ways. Solutions mentioned are local municipalities and interest groups, new industry consortia, possibly per region. As the banking sector has no new money for telecom investments it has to come from other sources like bonds, stock options and investment by the stakeholders. It would basically mean that either investments are done in new fiber to the home or the copper should be bought from the incumbents if xDSL is sufficient. This may take a while.

My closing topic is about a new plan that the Brussels regulators seem to propose. It suggests that incumbents may not introduce new services on their networks if those services cannot be delivered (copied) by the new players as well. This is about as crazy as it can get and it will bring the industry almost to a communistic model. Will Brussels turn into the European "Polit Bureau" after the old communist Russian model? The key of a competitive model is for a company to create a competitive advantage by being and staying different from others. Such an advantage can never last long and therefore it will keep the industry on its toes to be successful. Regulating this kind of things will again backfire. While the telecom regulators make sure they have enough work and jobs by creating their own world, the telecoms industry has lost more than 250.000 jobs in the meantime.

It should also be said that the industry themselves has contributed their fair share in creating the mess they are in, through bad business practice and un-lawful acts. However they should be given the opportunity to let the market sort them out, without the regulators creating additional barricades.

It is interesting to note that the same kind of development is ongoing in the utility sector, and especially in the power supply. Government (Brussels) forced competition, price battles, huge investments in CRM equipment and high customer churn. Already we see publications that maintenance and new investments in the infrastructure are lagging behind. Serious supply disruptions take place. It may be time to consider the purchase of personal back-up generators.

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