

# All IP networks: Regulatory Business As Usual?

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# Agenda

- Telecom regulation around the globe
- Why NGN's? Painting the scenery
- If NGN's, who will make money and how?
- Role of regulation?

# Telecom Regulation Diverse

- USA: fixed duopolies
  - Hard deregulation
  - Real Competition?
- Asia: government intervention
  - Japan: ull ¥120 2004 onward, FTTH investmt
  - Korea: government aid, competition,
- EU: focus on incumbent telco's
  - Driven by economic theory
  - Variation in results across countries

# Market Trends

- Decreasing Revenues “Old Economy”
  - Fixed and wireless telephony
  - Music and movie
  - Mass media advertising
- Increasing competition
- Increasing revenues “New Economy”
  - Online advertising, sales
  - Gaming
- Increasing consumer awareness
  - Pricing, abuse
  - Non-professional use: blogs, etc

# Consequences

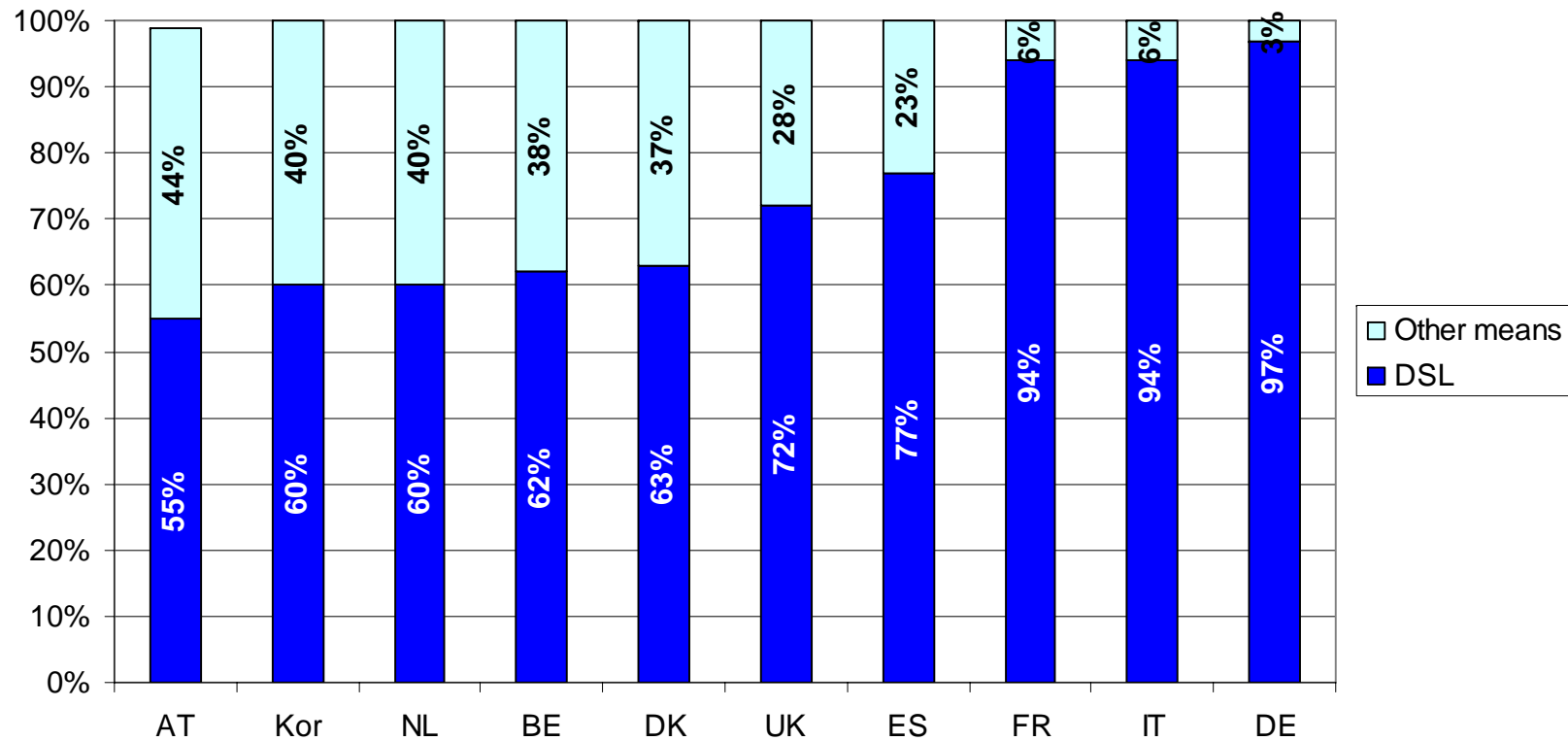
- Traditional telecom and media revenues down, margins down
- Revenues new information and software services up
- Ergo: Concentration
  - Horizontal (ISP, CATV M&A)
  - Vertical integration (MySpace)
- Which means
  - Cost increasing
  - Increasing scale

# NGN's Not Automatic

- For consumers?
  - Demand for multiple play?
- Increasing revenues?
  - What services?
- Cost cutting?
  - BT?
- Competition?
  - CATV-countries vs. Non-CATV countries
  - Godell report: offensive or defensive

# Competitive forces in wireline telecom

Total fixed broadband retail lines by technology, October 2005



# Resulting in: competitive picture

| Country     | 1Mb   | 4Mb   | 8Mb    | 100Mb |
|-------------|-------|-------|--------|-------|
| Korea       |       | ±26   | ±26    | 49.94 |
| Japan       |       |       | ±22    | ±52   |
| Netherlands | 19.94 | 25.54 | 49.94  |       |
| France      | 38.47 | 42.40 | 29.90  |       |
| Sweden      | 29.94 |       | 36.84  |       |
| UK          | 28.39 | 43.92 | 31.16  |       |
| Spain       | 31.00 | 63.31 | 174.66 |       |
| Denmark     | 47.46 | 66.01 | 106.99 |       |
| Germany     | 26.59 |       | 59.48* |       |

(Source: Telecompaper, Oct 2006, VAT incl, \* figures March 2006)



# NGN: Mixed Picture

- Japan
    - NTTVDSL; FTTH
  - Korea
    - KTVDSL; FTTH
  - USA
    - Verizon: FIOS
    - ATT: LightspeedVDSL-2, FTTH  
VDSL-2
  - UK
    - BT: 21CNCore network, ADSL-2
  - Netherlands
  - Germany
- VDSL-2
- 
- VDSL-2

# NGN Is Not Regulatory Business As Usual

- 1998            monopoly  
                  metered services/telephony  
                  separate networks and services
- Legacy networks, high margins, limited economies of scale and scope
- 2006            IP, always on, high cpu penetration  
                  converged: fixed-fixed and mobile-fixed
- New networks, low margins, massive economies of scale and scope

# Investment NGN non-legacy

- Anyone can invest, even without government
- DSL-based operators face new challenge
  - New investment?
  - Continue dependence on incumbent?
  - Pressure on regulator?
- How many infrastructures do you need?
  - New vs sunk investment
  - Wireless vs wireline
- What business models will arise?
  - Me2?
  - New business?

# NGN and Me2-competition

Me2= competition on all basic telecom services

- Possible only if dominant position
  - Regulated competition on access
  - Regulated competition on data services
- Even if dominant position very difficult to achieve
  - IP/data is pure commodity
  - Economies of scale with infrastructure owner
    - Revenues and margins low

# NGN and New Business

- New services
  - Information (Google, etc), Transaction (eBay, ecommerce), Entertainment services (gaming, etc)
- Communication services always included
- Revenues go to platform owner
  - Operating software, Portal, Content producer
- Possible only with access for service providers
  - Regulated or not? Importance of buying power
- Possible only with access for users
  - Consumer or producer?

# Conclusion

- NGN developments not likely
- More so in markets where competition is heating up
- Regulators face difficult puzzle
  - Path to NGN riddled with difficulties
  - What are relevant markets
  - Who will dominate?