New Issues in the Telecommunications Sector

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European Competitive Telecommunications Association

www.ectaweb.org

ECTA membership

- Pan-European telecom trade association of 300 companies.
- Rapid and diverse growth since its establishment in 1998.
  - Carriers, Resellers
  - Carrier Hotels, Co-locators and Hosting
  - Mobile and Wireless Providers
  - ISPs and ASPs
  - Network Providers
  - Equipment manufacturers
  - Legal, Financial and Research Organisations

Ongoing aims and objectives

- assist and encourage market liberalisation
- represent the telecommunications industry to key government and regulatory bodies
- maintain a forum for networking and business development in Europe
- assist new market entrants through pro-competitive policies
- continually reflect the dynamic nature of the telecommunications industry

ECTA Principles

- Consumers are Best Protected by Competition
- Regulators should not Pick Winners or Losers
- Consumer Choice should Drive the Development of Services
- Incumbents must not be Allowed to Prevent Competition
- Tariffs should be Reasonable and Straightforward
- Regulation should Create Confidence
- Pan-European Solutions are needed for Pan-European Problems

Changing Telecom Landscape

- <u>1997-April/00- Gold Rush</u>
- Historically high valuations of technology companies
- Financing Readily Available- rush to IPO and secondary offerings.
- Numerous competitive backbone networks.
- Competition for talent.

- <u>October 2000</u>
- Many telecom stocks have lost on average more than 50% of value (with some more than 90%).
- Collapse of the high yield bond market with rationing of existing financing.
- Period of consolidation has begun- Iaxis, World Online/Tiscali.
- Turnover at the top and increased competition for talent.

What happened? Broad Industry trends

- Many telecom company revenues still heavily voice oriented and margin squeeze has accelerated.
- DWDM technology has radically reduced the unit cost of transmission and will continue to do so for the forseeable future. Legacy networks > 6 months.
- Breakdown of accounting rate system has accelerated, aided by technology and IP bypass.
- Data offerings still limited, abundance of bandwidth has affected access prices.

Broad Industry Trends

- Bandwidth and voice commoditization
- Rise of trading exchanges
- Early days of hosted service applications.
- Promise of 3G

Financial Environment

- After dot-com implosion financial community is looking for P2P instead of B2C, B2B, etc.
- Serious concern over banking industry exposure to telecom industry. Global syndicated loans of more than $343 billion so far this year. Heavy borrowing by large firms is crowding out smaller companies.
- Downgrades of investment grade companies such as BT because of concern over exposure and high 3G license fees.

Major Euroloan Borrowers

Company	$Billion
BT	52
Olivetti	35
France Telecom	28
Vodafone	27
KPN	25
Deutsche Telekom	11
NTL	8
Telefonica	7
Mannesmann	6
One2One	5
	$204 Billion

- Source: Thomson Financial

Industry Response

- **Period of consolidation has begun- Iaxis, World Online/Tiscali.**
- **Larger entities are attempting to separate individual business units and/or are issuing tracking stocks.**
- **Split up of large organizations into separable and maybe? more nimble entities.**
- **Retrenchment is being rewarded**
  - **Some companies abandoning DSL because of concern over cost and implementation timeframes.**
- **Technology drove the investment wave yet going forward there will now be less focus on technology and more on applications.**

Implications for the near-Future

- Power of incumbency will get stronger.
- Financial environment has the potential to squeeze out the very companies which typically produce innovation.
- 3G License fees place an additional burden on innovation by taxing the resource rather than the revenue flow.
- M&A activity has the potential to disrupt the provision of quality services to users in the near term.

ECTA Mobile Interconnect Study

An ECTA-funded study undertaken earlier this year (conducted by Analysys) concluded that:

– *there is a clear and persistent bottleneck in the process of terminating calls on mobile networks, with few incentives for mobile operators to reduce their charges.*

Prices and Costs

- Termination charges are currently 40% to 70% higher than those determined by LRIC.
- Producer surplus in 1999
  - EUR4.5 billion for EU +Norway, Switzerland.
- For the period until 2006,

  GSM 900 operators' costs will fall 9%-12%

  GSM 1800 operators' costs will fall 21%-25%.
- Producer surplus in 2006

  Range of EUR 3.1-32.3 billion, depending on growth and termination charges.

  To eliminate the surplus annual deflator in the range of 5.3%-6.9% is required.

ECTA’s EU Voice

- Simplify licensing procedures.
- Speed implementation of ULL, carrier pre-selection and number portability.
- Be vigilant in checking anti-competitive pricing practices, such as excessive charges for mobile call termination.
- Speed resolution of SMP cases including a transparent system of analysis.
- ECTA fora encourage discussions of key topics
  - Hamburg conference (October) will address DSL
  - Barcelona conference (April) will address Wireless Communications.

Regulatory Watch

- Address the treasury/regulator dilemma
- Beware of incumbent/significant player protectionist arguments
  - 3G operators will be tempted to use the higher cost/higher interconnect fees argument to prevent open access to their networks.
- Promote open access to both fixed and wireline networks.
  - True cost-based interconnection will facilitate the takeup of applications.
- Unlock wireless and local loop bottlenecks

In Summary

- The industry is in transition with technology and investment reshaping the fundamental economics of service provision.
- The power of incumbency will continue to increase.
- Regulatory diligence is required to ensure customer choice.