

# Invention, Innovation and Diffusion of Local Loop Unbundling in the UK

## BACKGROUND

- An entrant in the telecoms market that does not own a local access network requires access to the incumbent's local loop to connect to customers; this is the copper-based connection between a telephone exchange and customer premises.
- There are three primary forms of access: Resale Access, Bitstream Access and Local Loop Unbundling.
- An entrant using Resale Access or Bitstream Access faces low barriers to entry but has little opportunity to differentiate its product from the incumbent as it is dependent on the incumbent for its service parameters, in particular, the access speed.
- An entrant using Local Loop Unbundling faces higher barriers to entry, as it needs to invest in its own equipment to prepare the unbundled loop for broadband access, but it does have the opportunity to differentiate its product.
- Local Loop Unbundling is therefore considered the superior form of access as the entrant can compete across more dimensions and pose a stronger competitive threat to the incumbent.
- By the second quarter of 2005, Local Loop Unbundling accounted for just 2% of the forms of competitive access using the incumbent's network in the UK compared with 56% in France.
- In 2004/2005, Ofcom introduced policy reforms to try to increase the take-up of Local Loop Unbundling. These had the specific intention of commercialising Local Loop Unbundling by removing the incumbent's incentive for discrimination in favour of their own downstream affiliate and by a significant reduction in the regulated price of Local Loop Unbundling. The policies appear to have been successful as Local Loop Unbundling had risen to 70% by 2011.

## METHODOLOGY

- The author evaluates the impact of Ofcom's policy changes on the take-up of Local Loop Unbundling in the UK.
- The analysis draws on UK data for the period 2002 - 2010.

## KEY FINDINGS

- Analysis of the data indicates that Ofcom's policies did have the intended effect of commercialising Local Loop Unbundling, which rapidly diffused through the market.
- However, a firm conclusion cannot be reached with respect to the relative importance of the incumbent's undertaking to provide Equivalence of Input and the price reduction.

## POLICY ISSUES

- To remove antitrust entry barriers and thus incentivise the innovation and diffusion of welfare-enhancing technologies, regulators cannot simply mandate access. They must also ensure that the terms under which those facilities are made available to customers are commercially acceptable to wholesale buyers, and that the vertically-integrated incumbent has reduced incentives to discriminate against its competitors.
- This means, at the very least, that prices must be reasonable, and that conditions of supply do not allow the owner of the essential facility to favour its own downstream affiliate.

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