

September
2008
 Inconsistent
 Regulation,
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 EU

CCP Policy Briefings

Inconsistent Regulation, Market Structure and Broadband Adoption in the EU: a Dynamic Model

BACKGROUND

- Policy makers in the European Union regard broadband penetration as socially and economically desirable.
- In March 2002, the European Union adopted a set of Directives which collectively formed the New Regulatory Framework for the electronic communications industry. These Directives were supposed to be passed into national law by the Member States by 25th July 2003. The purpose of the New Regulatory Framework was to establish a harmonised regulatory framework and to promote competition to ensure users derive maximum benefit in terms of choice, price, and quality.
- Five years after the introduction of the New Regulatory Framework, there is frustration in the European Commission that these objectives have not been met due to fragmentation of regulatory systems.
- In November 2007, a new set of Directives was proposed by the Commission to address some of the inconsistencies and remaining market problems. The new Directives are now subject to approval by the European Council and Parliament and transposition into national law. Therefore, electronic communications markets are still regulated under the 2002 Directives.

METHODOLOGY

- The author examines the effectiveness of regulation in promoting competition in, and consumer take-up of, broadband access in the EU. In particular, the author examines how the key policy of local loop unbundling has promoted competition in wholesale broadband markets and how competition in these markets promotes broadband adoption.
- Previous literature on the causal link between competition and broadband penetration is reviewed. The various broadband technologies are described. The regulatory policies adopted by selected EU Member States are examined and cluster analysis of countries based on their market structure is undertaken. Three sets of models are used to test the expectation that competition has a strong influence on broadband adoption.

KEY FINDINGS

- There are differences in regulatory policy across the EU, in particular with regard to prices for local loop unbundling and state ownership.

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- Prices of local loop unbundling tend to be higher where the state retains some level of shareholding in the incumbent operator.
- National regulatory authorities that have used their powers to force down prices of local loop unbundling have been rewarded with the expected result: a less concentrated broadband market.
- Lower prices clearly stimulate either or both greater market entry and expansion by existing local loop unbundling operators.
- Market structure is found to have a significant effect on the take-up of broadband across sample countries, with the effect taking time to be fully realised. As market structure becomes less concentrated (which can be treated as a proxy for more competition), so broadband penetration has increased.

POLICY ISSUES

- The European Commission's frustration with the implementation of the New Regulatory Framework is justified by the evidence and analysis presented by the author.
- If it is assumed that incumbent operators would not willingly provide local loop unbundling without regulatory prescription, then regulatory policy has at least some effect on the extent of local loop unbundling in each Member State market.
- Any action by the regulator to reduce market concentration will, *ceteris paribus*, increase demand for broadband. The easiest policy variable for a national regulatory authority to affect is the price of local loop unbundling.

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (CCP Working Paper 08-14) and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

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