

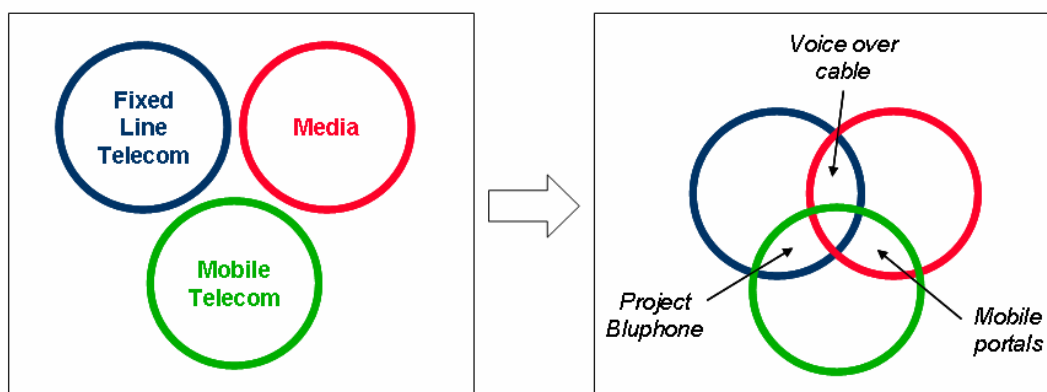
## THE CHALLENGES OF TELECOM REGULATIONS: ISSUES AND IMPLICATIONS

Regulators have struggled in their attempts to transform government-owned monopoly telecom services into a vibrant, dynamic and competitive industry. Some policies and guidelines had desired impact while some lacked efficacy and a few led to unintended outcomes. Two key factors contributed to this scenario.

### 1. The rapidly evolving competitive landscape

Technology developments are rapidly and significantly reshaping the competitive landscape in the media and communications industries. The once distinct components of these sectors are increasingly *overlapping* (rather than *converging*) in terms of services and delivery platforms. Examples include the encroachment of cable players on core voice services of telecom incumbents, the growth of mobile as a voice (and data) communication alternative and the (planned) incursion of telecom incumbents into the media sector (through TV over DSL). The consequent impact on regulatory process has been wide and deep. At best, the transformation required has been obvious and feasible, e.g. a shift from traditional industry-focussed (e.g. fixed-line telco) to services-focussed approach (e.g. broadband access) in formulating regulatory guidelines. Accordingly, access and pricing directives for incumbent's DSL network are established based on a review of *all* delivery platforms (DSL vs. cable modem vs. fixed-wireless) for broadband services. At worst, the regulatory implication of emerging technology/ competition has been unclear and, sometimes, even confusing. An example is the proposed directive regarding allocation of number blocks for VoIP services and the corresponding impact on interconnection charge regime.

#### Traditionally distinct media & communications sectors are increasingly overlapping



Source: Index Partners

Few regulators have adapted to these changes well; a notable example being the reincarnation of Ofcom from Oftel in the UK.

### 2. The Regulator's Dilemma: Implicit trade-offs in price / access models

Most telecom regulators follow an ambitious agenda to create a policy framework that encourages competition, stimulates consumer demand, ensures "fair" market price and supports innovation and investments in the sector. Consequently, they grapple with a combination of (wholesale/ retail) *price* and *access* related policies that are often incoherent at best and conflicting at worst. This is summarised in the diagram below.

## The Regulator's Dilemma: Developing price and access policies to promote innovation & growth

| Regulator Objective                             | Regulatory Implication |                 |              |
|---|------------------------|-----------------|--------------|
|   | Network access         | Wholesale price | Retail price |
| <i>Encourage broadband adoption</i>             | Open                   | Low             | Low          |
| <i>Protect consumer interest</i>                | Open                   | Low             | Low          |
| <i>Encourage competition</i>                    | Open                   | Low             | High         |
| <i>Encourage incumbent investment in assets</i> | Closed                 | High            | High         |
| <i>Ensure viability of incumbent</i>            | Closed                 | High            | High         |

Source: FOR Securities, Index Partners

It is important to note the price/ access regulatory models need to be tailored to the situation in each specific market (demand structure, technology alternatives, concentration and availability of funds). Moreover, the optimal policies in each market could change over time as the demand, pricing and competitive structures evolve.

### 3. Implications for industry participants

Regulators and companies, therefore, need to periodically assess the impact of alternative price/ access models on the demand, capacity and competitive structures of a market. This requires use of dynamic evaluation methodologies (e.g. system dynamics, simulation, etc.) to capture the intricacies of the inter-relationships across time as well as a comprehensive perspective on the overlapping set of media and communications industries.

Index Partners leverages its knowledge and experience across these converging sectors as well as its expertise in cutting-edge valuation methodologies to help investors, companies and regulators assess specific decision problems.

Notes:

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