

# alto

alternative operators in the communications market

**Unblocking Broadband**

**Enabling Local Loop Unbundling in Ireland**

6 March 2006

## Introduction

The availability and take-up of broadband is seen as a critical factor for social and economic development - and having a vibrant competitive market for broadband is one of Government's key policies for the communications sector. Yet, Ireland has performed poorly in comparison to most other western countries for broadband penetration, and a "broadband gap" has emerged between Ireland and other European states. Perhaps the most surprising thing is that this gap is growing – rather than catching up, Ireland is falling further behind.

The market for supply of Broadband in Ireland is not competitive. In particular, new entrants have experienced obstacles and delays in obtaining reasonable access to the local network (local loop) in order to supply alternative broadband services to consumers. ALTO commissioned Analysys Consulting to examine the impact of these obstacles on broadband penetration in Ireland. The result is a white paper, "The Importance of Local Loop Unbundling in Ireland" which has been published by Analysys, and a copy of which is annexed to this document.

The Analysys report shows that Ireland is underperforming by a factor of 2 to 3 times when compared to other countries with similar GDP per capita. It argues that competition is important for stimulating growth, not just because it gives consumers a range of products from new entrants, but also because it keeps the incumbent honest - a trend can be seen whereby those countries with the greatest platform competition have the highest broadband penetration rates. Local Loop Unbundling has the potential to allow several infrastructure-based broadband providers to compete. In the Analysys white paper, the results of two scenarios are given, one in which local loop unbundling is allowed to succeed in Ireland, and one in which it continues to be stifled as at present. The difference by 2010 (little more than 3.5 years away) is that broadband penetration would be one third greater with successful unbundling than it would without.

ALTO is now calling for a number of actions to make local loop unbundling a success in Ireland and to stimulate broadband growth:

### Eircom

- Immediate implementation of number portability when unbundling lines, even if this must be on a "workaround" basis to begin with
- Immediate removal of the restriction that prevents Eircom's competitors from transferring customers to unbundled lines, rather than the customer having to cease and re-order
- Immediate removal of the unjustified restriction that prevents Eircom's competitors from supplying broadband to their own voice and line rental customers using Line Sharing

- Development of a scalable automated solution for number portability, to be implemented soon after the “workaround” solution

**ComReg**

- Intervention to require that Eircom removes the restrictions listed above without delay
- Immediately begin a study to investigate all aspects of the separation of Eircom into a core wholesale unit and a retail unit, with the objective of ensuring that Eircom’s retail competitors are given equivalence of access to the services of the core unit. Greater transparency regulation for monitoring Eircom internal trading is essential to maintain a fair playing field for competitions
- Ongoing detailed regulation of the terms under which Eircom’s competitors can access the local loop, including price and processes

**Government**

- Bring forward the Communications Bill as a priority, giving ComReg enforcement powers
- Include in the Communications Bill powers that would allow ComReg to assess, and if necessary require the structural separation of Eircom
- Investigate the availability of backhaul facilities and develop a programme that would ensure backhaul facilities are provided at reasonable prices from locations throughout the country

**The Importance of Broadband**

Broadband has the potential to change not just the way we access the internet, but the way we live and work, bringing social and economic benefits. It is generally accepted that there are direct links between productivity and a healthy, innovative ICT sector in the economy. Productivity growth has been declining in Ireland in the last couple of years, and a firm focus on innovation and competitiveness is required to safeguard future economic development. The adoption of broadband within the economy is necessary both for the direct effect it will have on costs and the indirect effect on development of an e-economy.

**The Broadband Gap – Ireland’s Underperformance**

By any measure, the adoption of broadband in Ireland has been disappointing to date. There are multiple reports available from the OECD, ECTA<sup>1</sup>, the European Commission, and many others, all of which indicate the same result – Ireland is

---

<sup>1</sup> ECTA scorecard, issued in February 2006, is available at: <http://www.ectaportal.com>

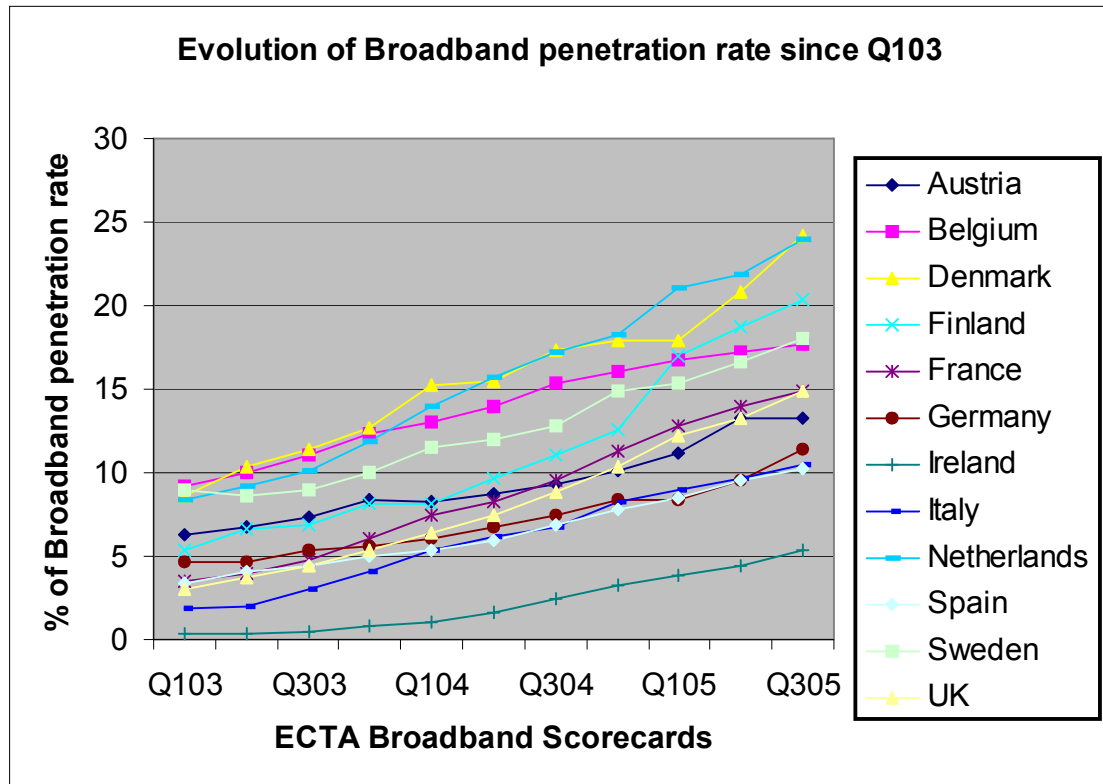
ranked among the poorest performing of comparator countries for take-up of broadband. The Analysys white paper shows Ireland is underperforming by a factor of two or three times when a comparison is made with other European countries of similar GDP per capita.

The result is that a distinct gap has emerged between the take-up rate for broadband in Ireland and the European average. Ireland is currently approximately three years behind the average penetration rate for the EU15 countries. This can not simply be explained by reference to a late start for broadband in Ireland or by the dot-com crash earlier in this decade (the crash effected the comparison countries also), but points to a more deep-seated structural impediment to the development of broadband in Ireland.

### **The Widening Gap – Falling Further Behind**

Perhaps the most worrying aspect of broadband penetration in Ireland is that we are not catching up. A country with relatively high GDP like Ireland, and an objective to develop a high-tech economy would be expected to rapidly catch-up and overtake the EU average. However, while overall consumer numbers have been growing over the past year, the quarterly increase in the number of broadband connections per head of population is below the European average – we are falling further behind.

The latest ECTA broadband scorecard tracks broadband penetration in European countries up to the third quarter of 2005. During this quarter the average increase in penetration rate across the EU 25 was 1.0% (1.2% for EU15), whereas in Ireland the increase was only 0.9%. The figure below which is taken from the ECTA scorecard charts broadband growth in the main EU countries since the beginning of 2003, and clearly shows the growing gap in Ireland's performance.



### The Link between Competition and Growth

Countries that perform best for take-up are those that have competitive markets for the supply of broadband services. In Europe, countries like Denmark, the Netherlands, Sweden and Finland have the highest broadband penetration rates, and also have the most competitive markets for supply of broadband. The link between competing methods of delivery, and overall take-up is demonstrated in the Analysys white paper, and is also emphasised by the EU Commission in its 11<sup>th</sup> Implementation Report<sup>2</sup>, which states:

“While many factors contribute to broadband take-up, competition is one of the most important. The extent and nature of competition seems to vary significantly across the EU. For example the countries with the highest penetration (above 15%) all have high cable penetration but often also well-developed access regimes such as for ULL or bitstream”.

<sup>2</sup> Comm 2006/68, of 20 February 2006

## **The Contribution of Unbundled Lines**

The most recent ECTA scorecard also shows the link between competitive markets and broadband penetration. In particular, the role of unbundled local loops is highlighted by the fact that almost half of all new entrant DSL connections made in the last year have been made on unbundled lines. Countries like the Netherlands, Denmark, and Sweden which are at the top of the table have a significant portion of broadband connections delivered over unbundled lines.

## **Loss to Irish Business and Consumers**

Irish business and consumers are losing out as a result of the lack of competition for broadband services. The Analysys report gives examples of products that are available to consumers in countries where unbundling has been successful – in Japan and France consumers enjoy high speed broadband and entertainment services delivered over the local loop using DSL, whereas many consumers in Ireland can't avail of any broadband service at all. Those who do want to switch to a new entrant broadband service face the significant barriers of number loss and service loss.

Small and Medium sized enterprises are also losing out on the option to replace expensive leased lines with lower cost LLU based alternatives, and also on the option to reduce the cost of line rental and telephone calls by using Voice over IP alternatives. Ireland has the highest monthly line rental in the EU – the failure of the unbundling process means that Eircom's competitors can not offer a competing line rental service.

Ireland's continuing underperformance and the growth of a broadband gap is a cause of serious concern for the broader economy. It calls into question our ability to become a leading high-tech country, and undermines the Government strategy of boosting productivity and growth in an information economy.

In the Analysys white paper, the results of two scenarios are given, one in which local loop unbundling is allowed to succeed in Ireland, and one in which it continues to be stifled as at present. The difference by 2010 (little more than 3.5 years away) is that broadband penetration would be one third greater with successful unbundling than it would without.

## **What Action is required?**

Ireland needs to "jump-start" broadband take-up as a matter of priority. The process for unbundling the local loop has held back the development of a competitive market and ALTO is now calling for the following actions to be taken:

**Eircom**

- Immediate implementation of number portability when unbundling lines, even if this must be on a “workaround” basis to begin with
- Immediate removal of the restriction that prevents Eircom’s competitors from transferring customers to unbundled lines, rather than the customer having to cease and re-order.
- Immediate removal of the unjustified restriction that prevents Eircom’s competitors from supplying broadband to their own voice and line rental customers using Line Sharing
- Development of a scalable automated solution for number portability, to be implemented soon after the “workaround” solution

**ComReg**

- Intervention to require that Eircom removes the restrictions listed above without delay
- Immediately begin a study to investigate all aspects of the separation of Eircom into a core wholesale unit and a retail unit, with the objective of ensuring that Eircom’s retail competitors are given equivalence of access to the services of the core unit. Greater transparency regulation for monitoring Eircom internal trading is essential to maintain a fair playing field for competitions
- Ongoing detailed regulation of the terms under which Eircom’s competitors can access the local loop, including price and processes

**Government**

- Bring forward the Communications Bill as a priority, giving ComReg enforcement powers
- Include in the Communications Bill powers that would allow ComReg to assess, and if necessary require the structural separation of Eircom
- Investigate the availability of backhaul facilities and develop a programme that would ensure backhaul facilities are provided at reasonable prices from locations throughout the country