


# The economics of regulation

The European telecoms industry continues to lament Europe's FTTH lag—some 5 million homes passed compared to more than 60 million in Asia, where the market leaders have proactive government FTTH policies.

However, on the legislative side, the situation is changing. European Union members understand the need for more regulation and have made a lot of progress over the past year. The European Commission (EC) has drafted a new European regulatory framework that could become law in a year. The legislation, which clearly identifies different FTTx technologies, is designed to serve as a guide for national regulators.

European and national legislators are on the right track with legislative efforts aimed at stimulating FTTx deployments. But they will need to focus more on economic issues in the wake of the global recession if they want to eliminate the digital divide in Europe and reach the levels of FTTH deployments seen in Asia today. As credit becomes scarce, Europeans will likely be forced in many areas to consider the open access model used in the Netherlands and in Scandinavia, where municipalities own and operate the passive fibre layer and restrict competition to service and content providers. This model guarantees the maximum FTTH coverage in cities and reduces the risks of the overbuilding and bankruptcies that occurred as a result of the boom in Europe's long-distance fibre market.

FTTH infrastructure competition is beginning to face hurdles and disputes in France, Portugal, and where national regulators are already implementing FTTx regulations that are in line with EC proposals. The problems have arisen despite regulations requiring incumbents to share telecoms infrastructure—mainly ducts—and the obligation of the first operator to enter a building to share the building's fibre network with competitors. Haggling over duct sharing and building fibre interconnections has already frozen FTTH plans in Spain and slowed FTTH roll out schedules in France.

Although the FTTH Council Europe and ARCEP, the French regulator, have called for government intervention in rural and underserved markets to stimulate FTTH deployments, they have taken a *laissez faire* attitude in cities with a high level of competition, aside from the duct and building cabling sharing requirements. But for the moment incumbents and alternative operators are rolling out FTTH networks only in Tier 1 markets. So if these initial plans stall or fail, there will be little likelihood of these companies building FTTH networks in Tier 2 or 3 markets. And without successful FTTH projects in the big European markets there will be less pressure to build FTTH networks in smaller markets. 

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